ER 69-245/A

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Mr. Alvin M. David
Assistant Commissioner for Program
Evaluation and Planning
Social Security Administration
Baltimore, Maryland 21235

Dear Mr. David:

This is in response to your 10 January letter to Mr. Helms requesting comments on a proposed report on social security and Federal employment to be submitted by the Social Security Administration to the House Committee on Ways and Means and the Senate Committee on Finance.

As stated in Mr. Maury's letter to you of 20 December 1968, we endorse the report's general objectives of providing needed protection for Federal employees, and their dependents and survivors, by transferring Federal employee credits to social security and guaranteeing minimum staff retirement system benefits equal to social security benefit levels.

As you know, most employees of this Agency are covered by the Civil Service Retirement System, administered by the Civil Service Commission, but others participate in the Central Intelligence Agency Retirement and Disability System (P. L. 88-643), administered by the Director of Central Intelligence. We therefore are especially pleased to note that in the "Conclusions and Recommendations" section of the proposed report the Central Intelligence Agency retirement system is included, along with the Civil Service and Foreign Service retirement systems, in recommendation 3(a), "Transfer of credits to social security," and recommendation 3(b), "Guaranteed minimum civil service benefits."

We appreciate this opportunity to comment on the proposed report,

Sincerely,

/s/ L. K. White

Prepared by OLC Rewritten:O-ExDir:BE:blp Distribution: 0 - Adse

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L. K. White Executive Director

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE SOCIAL SECURITY ADMINISTRATION BALTIMORE, MARYLAND 21235

REFER TO: P:CD

JAN 1 0 1969

Honorable Richard Helms, Director Central Intelligence Agency Washington, D.C. 20505

Dear Mr. Helms:

Enclosed are copies of a draft of a proposed report on social security and Federal employment which the House Committee on Ways and Means and the Senate Committee on Finance directed the Social Security Administration to make. A complete text of the request appears at the beginning of the report.

Since a report must be released before the end of next week, the enclosed draft can be regarded as close to completed form. Revisions to improve the presentation have been made in the draft previously sent to the office of your legislative counsel, and a section has been added which represents our views as to what conclusions are to be drawn and what recommendations should be made to the Committees. Copies are also being sent to Mr. John Maury.

I would appreciate having any comments you may wish to make on this version of the report.

Sincerely yours,

Assistant Commissioner for

Program Evaluation and Planning

Enclosure

SOCIAL
SECURITY
PROTECTION
to the
FEDERAL
CIVIL
SERVICE

A Report Requested By
The Committee On Ways And Means
U.S. House Of Representatives
And
The Committee On Finance
U.S. Senate

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE SOCIAL SECURITY ADMINISTRATION

January 1969



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION
BALTIMORE, MARYLAND 21235

OFFICE OF THE COMMISSIONER

P:CD January 17, 1969

Honorable Wilbur D. Mills Chairman, Committee on Ways and Means House of Representatives Washington, D.C. 20515

Dear Mr. Chairman:

The enclosed report is submitted pursuant to the direction of your Committee in its report on the Social Security Amendments of 1967 (House Report No. 544, 90th Congress) to the Social Security Administration "to make a thorough study of all the various problems which up to now have precluded the coverage of governmental employees under social security," and to submit a "report of the study, including positive recommendations for covering of Government employees on a basis that is fair to both Government employees and all other workers."

Your Committee's request referred specifically to gaps in the cash benefit protection, difficulties arising from the lack of a satisfactory relationship between Medicare and the Federal employees health benefits program, and the situation in which some Government retirees with annuities based on substantial salary also qualify for minimum or close-to-minimum social security benefits that are weighted to produce an advantage intended for low earners.

Possible approaches to dealing with the situations your Committee referred to in its request were analyzed with respect to their effect on the over-all benefit protection of workers who have Federal employment—those who make a career in the Federal civil service and those whose working lifetimes are divided between the Federal civil service and other employment—and with due regard to the equities of the workers who are covered under and contributing to the social security program. Also a primary consideration was the importance of avoiding any changes in the Federal staff—retirement systems that would be inconsistent with their basic purposes or interfere with their continued independence. In weighing these considerations, we were continually mindful of the desirability of avoiding the incurrence of any additional costs that would not be essential to a solution of those matters which clearly were within the scope of the requested study.

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We gave first consideration to an approach involving extension of social security coverage to Federal employment, with the Federal staff-retirement provisions modified to take into account that employees would also be covered under social security--the approach commonly used in private industry and in most other areas of employment. This approach would be more likely than others to assure that the combined benefits (and contributions) of people who move between Federal employment and other work would be at a planned and systematic level. We concluded that the negative considerations, including the high costs involved in a workable coordination of the present provisions of the civil service retirement and social security systems, were of sufficient importance as to indicate that an alternative approach would be preferable. It appears to us that a workable coverage-coordination plan would entail additional costs amounting to at least 6 percent of civil service payroll, and perhaps substantially more. Much of the additional costs would be attributable to increases in the retirement benefit amounts of long service Federal employees, while the objective of our study was concerned with ways of assuring a basic level of benefit protection to all workers who have Federal employment.

Some of the organizations of Federal employees have supported proposals to make social security coverage available to civil service employees on an individual voluntary basis and with no reduction of benefits of the civil service retirement system. We concluded that voluntary coverage would not remedy the problems cited in your Committee's request. The increased costs to the Government would go mainly toward substantially increasing the benefits of those employees who are best able to afford the social security contributions and expect that their social security benefits would represent a high return on the contributions. Further, the adverse selection that would occur under individual voluntary coverage would increase the cost of the social security program at the expense of other workers, who are covered under social security on a compulsory basis.

In considering measures which could provide a satisfactory alternative to social security coverage of Federal employment, we reviewed previously advanced proposals intended to remedy the difficulties cited in your Committee's request and we also explored other possibilities. On the basis of our study we recommend a three-fold approach.

Two of these proposed measures would be applicable to the Federal civil service retirement system, the foreign service retirement system, and the Central Intelligence Agency retirement system. For these staff-retirement systems we propose that:

(1) Where there is no benefit eligibility under the retirement system when a worker dies, becomes disabled, or retires, credits would be transferred from the staff-retirement system to social security; and

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(2) Where there is benefit eligibility under the retirement system, the staff-retirement system benefits (or if social security benefits based on other work are also payable, the staff-retirement system and social security benefits together) would be guaranteed to be at least as high as if employment subject to the staff-retirement system had been covered by social security.

Our third proposal is designed to establish an appropriate relationship between the Federal employees health benefits program and the Medicare program, and thus would affect practically all Federal civilian employees without regard to their retirement-system coverage. Under this proposal, Federal employees, like workers in private industry, would contribute with their employing agency during their working years toward their health insurance protection after age 65. The retired employee would then have Medicare protection after age 65, paying only the relatively small premium for participating in the voluntary supplemental medical insurance part of Medicare. The Government would make available complementary health insurance that would, together with Medicare protection, provide health insurance protection at approximately the level now provided under the Government-wide high-option plans of the Federal employees health benefits program. To make the plan fully and quickly effective, we are proposing that present Federal retirees be deemed insured for Part A of Medicare, with the cost met by the Government, as employer.

While we do not at this time have definitive cost estimates on the additional costs that would result from adoption of the above-described proposals, it is clear that the combined costs would be very substantially below the cost of a workable coverage-coordination plan.

Your Committee's request also referred to situations in which some individuals qualify for Government retirement-system benefits based on substantial salary and also qualify for minimum or near-minimum social security benefits which, though small, provide a relatively high return on social security contributions. In the discussion of such situations in the report, we have indicated possible approaches that could be considered if some action were to be taken. But our special study of this matter showed that the number of such cases is quite small and will decline in the future. We concluded that any legislative change designed to eliminate such cases would give rise to serious inequities, and we recommend against any legislative action to provide for reduction of social security benefits paid to Government employees.

In developing our report, we have consulted with the Civil Service Commission and with the other Federal agencies primarily concerned. We have also carefully considered the testimony of representatives of organizations

4

of Federal employees on related proposals made in the past, as well as relevant resolutions that have been adopted by Federal employee organizations. We have discussed possible proposals with representatives of the major organizations of Federal employees, and have tried to reflect in the report points brought up in these discussions.

We believe that the measures we are proposing represent a fair and reasonable reconciliation of the divergent views and interests of all who have an important stake in the resolution of the problems cited by your Committee. The proposals appear to be sound and practicable. They would largely solve the major existing problems, at optimum cost, and in a way that seems to us to be fair to employees of the Federal Government and to workers who are covered under social security.

Cobert M Ball

Commissioner of Social Security

Enclosure



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION
BALTIMORE, MARYLAND 21235

OFFICE OF THE COMMISSIONER

P:CD January 17, 1969

Honorable Russell B. Long Chairman, Committee on Finance United States Senate Washington, D.C. 20510

Dear Mr. Chairman:

The enclosed report is submitted pursuant to the direction of your Committee in its report on the Social Security Amendments of 1967 (Senate Report No. 744, 90th Congress) to the Social Security Administration "to make a thorough study of all the various problems which up to now have precluded the coverage of governmental employees under social security," and to submit a "report of the study, including positive recommendations for covering of Government employees on a basis that is fair to both Government employees and all other workers."

Your Committee's request referred specifically to gaps in the cash benefit protection, difficulties arising from the lack of a satisfactory relationship between Medicare and the Federal employees health benefits program, and the situation in which some Government retirees with annuities based on substantial salary also qualify for minimum or close-to-minimum social security benefits that are weighted to produce an advantage intended for low earners.

Possible approaches to dealing with the situations your Committee referred to in its request were analyzed with respect to their effect on the over-all benefit protection of workers who have Federal employment—those who make a career in the Federal civil service and those whose working lifetimes are divided between the Federal civil service and other employment—and with due regard to the equities of the workers who are covered under and contributing to the social security program. Also a primary consideration was the importance of avoiding any changes in the Federal staff—retirement systems that would be inconsistent with their basic purposes or interfere with their continued independence. In weighing these considerations, we were continually mindful of the desirability of avoiding the incurrence of any additional costs that would not be essential to a solution of those matters which clearly were within the scope of the requested study.

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Some of the organizations of Federal employees have supported proposals to make social security coverage available to civil service employees on an individual voluntary basis and with no reduction of benefits of the civil service retirement system. We concluded that voluntary coverage would not remedy the problems cited in your Committee's request. The increased costs to the Government would go mainly toward substantially increasing the benefits of those employees who are best able to afford the social security contributions and expect that their social security benefits would represent a high return on the contributions. Further, the adverse selection that would occur under individual voluntary coverage would increase the cost of the social security program at the expense of other workers, who are covered under social security on a compulsory basis.

In considering measures which could provide a satisfactory alternative to social security coverage of Federal employment, we reviewed previously advanced proposals intended to remedy the difficulties cited in your Committee's request and we also explored other possibilities. On the basis of our study we recommend a three-fold approach.

Two of these proposed measures would be applicable to the Federal civil service retirement system, the foreign service retirement system, and the Central Intelligence Agency retirement system. For these staff-retirement systems we propose that:

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Our third proposal is designed to establish an appropriate relationship between the Federal employees health benefits program and the Medicare program, and thus would affect practically all Federal civilian employees without regard to their retirement-system coverage. Under this proposal, Federal employees, like workers in private industry, would contribute with their employing agency during their working years toward their health insurance protection after age 65. The retired employee would then have Medicare protection after age 65, paying only the relatively small premium for participating in the voluntary supplemental medical insurance part of Medicare. The Government would make available complementary health insurance that would, together with Medicare protection, provide health insurance protection at approximately the level now provided under the Government-wide high-option plans of the Federal employees health benefits program. To make the plan fully and quickly effective, we are proposing that present Federal retirees be deemed insured for Part A of Medicare, with the cost met by the Government, as employer.

While we do not at this time have definitive cost estimates on the additional costs that would result from adoption of the above-described proposals, it is clear that the combined costs would be very substantially below the cost of a workable coverage-coordination plan.

Your Committee's request also referred to situations in which some individuals qualify for Government retirement-system benefits based on substantial salary and also qualify for minimum or near-minimum social security benefits which, though small, provide a relatively high return on social security contributions. In the discussion of such situations in the report, we have indicated possible approaches that could be considered if some action were to be taken. But our special study of this matter showed that the number of such cases is quite small and will decline in the future. We concluded that any legislative change designed to eliminate such cases would give rise to serious inequities, and we recommend against any legislative action to provide for reduction of social security benefits paid to Government employees.

In developing our report, we have consulted with the Civil Service Commission and with the other Federal agencies primarily concerned. We have also carefully considered the testimony of representatives of organizations

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of Federal employees on related proposals made in the past, as well as relevant resolutions that have been adopted by Federal employee organizations. We have discussed possible proposals with representatives of the major organizations of Federal employees, and have tried to reflect in the report points brought up in these discussions.

We believe that the measures we are proposing represent a fair and reasonable reconciliation of the divergent views and interests of all who have an important stake in the resolution of the problems cited by your Committee. The proposals appear to be sound and practicable. They would largely solve the major existing problems, at optimum cost, and in a way that seems to us to be fair to employees of the Federal Government and to workers who are covered under social security.

Sincerely,

Robert M. Ball

Commissioner of Social Security

Enclosure

SOCIAL
SECURITY
PROTECTION
to the
FEDERAL
CIVIL
SERVICE

RELATING SOCIAL SECURITY PROTECTION TO THE FEDERAL CIVIL SERVICE

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RELATING SOCIAL SECURITY PROTECTION TO THE FEDERAL CIVIL SERVICE

REQUEST FOR REPORT

The Committee on Ways and Means, in its report (House Report No. 544, 90th Congress) on the Social Security Amendments of 1967, directed the Social Security Administration, in consultation with appropriate Federal agencies and employee groups, to study the problems which have precluded the coverage of most Federal Government employees under social security, and to submit recommendations to the Congress. The Senate Committee on Finance concurred in this request in its report (Senate Report No. 744) on the 1967 amendments.

Following is the relevant part of the report of the Committee on Ways and Means:

"Your committee is aware of the gaps which exist in the protection of the Federal workers who do not have survivorship, disability, or retirement protection based on that employment.

"A particular hardship exists in many instances when an individual dies during his first 5 years of Government service, when he is not yet entitled to survivorship protection under his Federal staff retirement system but he has lost his coverage under OASDI. A similar situation occurs when an individual dies shortly after leaving Federal service and before he has worked under OASDI long enough to be covered for survivorship benefits.

"Additionally, an inequity may possibly exist in the relationship of the Medicare program to Federal employees. Approximately 50 percent of our retired Federal employees are entitled to hospital insurance benefits under Medicare on the basis of coverage acquired while serving in the armed services or working in private employment. If the retiree elects to pay the premium for coverage under the voluntary supplementary medical plan open to all of our citizens, he will enjoy health insurance protection approaching that afforded by the high option plans offered by the Federal Employees Health Benefit Act. In that case, the Federal Government is relieved of any obligation to contribute to his health care as an employee distinct from a member of the general public.

"Those Federal retirees not entitled to hospital insurance protection under Medicare cannot benefit from the voluntary supplemental plan toward which the Government currently contributes \$3 per month on behalf of each participant. Since the retiree must retain the health insurance plan he selected as an employee in order to have hospital insurance protection, the voluntary supplemental plan will duplicate coverage he already has. As he is not permitted to collect duplicate benefits, the voluntary supplemental plan is not worth the \$3 per month the individual would be required to pay.

"The Administration's bill, H.R. 5710, contained a proposal under which credits for work subject to a Federal staff-retirement system would be transferred to social security in all cases where the worker or his survivors do not become eligible for staff-system benefits based on that work. Your committee also considered the possibility of extending social security hospital insurance coverage to Federal civilian employment, on the contributory basis that is applicable to such coverage of almost all other kinds of work. Although each of these ideas has some merit, your committee believes there should be further and more comprehensive study of the possible ways of including Federal employees in the program before any recommendation for change is made.

"Of concern to your committee is a situation that can occur when Government employees, either active or retired, work in employment covered under the social security program and qualify for the minimum or low benefits. This situation occurs when the Government worker with a substantial Government salary works part-time under social security or enters covered employment after retirement; in such cases he can become entitled to social security benefits (perhaps the minimum benefit) which will be heavily weighted in his favor, receiving a higher percentage of wage replacement on his social security earnings. The social security weighted benefit formula is designed for the worker who has low earnings from all sources all his working life.

The committee has directed the Social Security Administration to make a thorough study of all of the various problems which up to now have precluded the coverage of governmental employees under social security. The committee directs the Social Security Administration to conduct this study in close and constant cooperation with employee groups and with appropriate Federal agencies with a view to resolving the problems in a manner that is fair to both the governmental employees and the other members of the labor force that support the OASDI system. The report of the study, including positive recommendations for covering of Government employees on a basis that is fair to both Government employees and all other workers, is to be submitted to the Congress prior to January 1, 1969."

In the following report of the results of our study, we have generally made reference to the Federal civil service retirement system for purposes of describing present problems and possible solutions. That system covers about 99 percent of those Federal jobs that are not covered by social security. Whatever approach might be used to fill gaps in the protection of workers employed under the civil service retirement system could be adapted to some of the much-smaller Federal staff-retirement systems such as the foreign service and Central Intelligence Agency retirement systems. 1/

^{1/} The principal benefit provisions of the civil service, foreign service, and Central Intelligence Agency retirement systems, and of social security, are summarized in Appendix A.

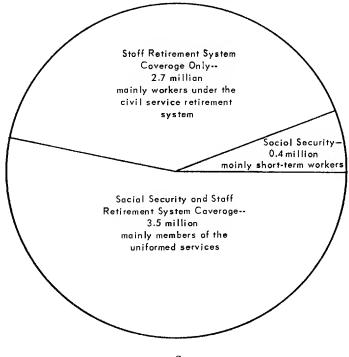
PROBLEM AREAS

There is general agreement that the Federal civil service retirement system is an excellent staff-retirement system, appropriately designed to further the effective administration of the Government. However, the present study, by its nature, is concerned with certain deficiences in the protection afforded many of the workers who have employment subject to that system, in comparison with the basic family protection afforded workers generally under social security.

The principle that the workers of the Nation should, to the extent possible, be assured that a basic level of family income will continue when the worker's earnings are cut off by retirement, severe disablement, or death is today deeply imbedded in public policy. Almost all workers other than those under the Federal civil service retirement system or under some of the systems for State and local government employees, are in jobs covered by social security, which provides this basic protection. Generally this protection continues without interruption if the worker goes into different employment. Many workers covered under social security have supplementary protection through employer or collective bargaining arrangements, such as private pension, staff-retirement or profit sharing plans.

As shown in the following chart, about 9 out of 10 Federal civilian jobs-representing 40 percent of all Federal personnel--are in employment subject to a Federal staff-retirement system and excluded from social security. Members of the Federal uniformed services and most employees of the Tennessee Valley Authority are covered by both social security and a staff-retirement system.

Chart 1. Retirement system coverage of Federal personnel



The Federal civil service retirement system has developed independently of the social security system and its development has of course been strongly influenced by objectives common to staff-retirement systems--including the objective of encouraging competent workers to make a career in employment subject to the staff-retirement system. The civil service retirement system therefore places main emphasis on adequacy of retirement benefits for long-service employees. Once an employee has completed long service he generally has good disability and survivorship protection as well. 2/

Table 1. CSR retirement benefits for long-service employees, as a percentage of pay.

Years of	Retirement Benefits as
Service	Percentage of Pay <u>1</u> /
30 years	56 1/4%
35 years	66 1/4%
40 years	76 1/4%
42 years or more	80 %

^{1/} CSR retirement benefits are computed as a percentage of average pay over the 5-year period of highest pay (generally the last 5 years). Cost-of-living increases, related to increases in the Consumer Price Index, are provided after entitlement.

Conversely, because of the staff-retirement system emphasis on length of service, there are serious gaps in protection, or deficiences in benefit levels, for large numbers of Federal workers, including career employees who do not yet have long Federal service. These gaps and deficiencies--mainly in family survivorship and disability protection--have been largely eliminated in most other areas of employment subject to staff-retirement systems because the workers also have social security coverage. Under social security, in accord with social insurance principles, full-scale family survivorship protection and family disability protection for young workers arise after 6 calendar quarters of covered work. 3/

^{2/} Examples of monthly benefits under the civil service retirement system are shown in Appendix B.

^{3/} Examples of monthly benefit payments under social security are shown in Appendix C. The term "family" is here used to mean a unit that includes at least one dependent child. In survivorship cases involving a widow, but no dependent child, the benefits are in many cases better under CSR than under social security, as CSR pays an immediate annuity if an employee dies after 5 or more years of service, while social security widow's benefits are not payable until age 60, or until age 50 if the widow is totally disabled. However, in cases where the worker had only 5 years of Federal service, the widow's annuity would be 4 1/8 percent of the worker's high-5 average salary. This annuity amount would increase by about one percent of salary for each year of Federal service performed by the worker in excess of 5 years.

1. Gaps and deficiencies in the annuity protection of workers who have Federal employment

The shortcomings in protection of Federal employees and their families affect, at one time or another during their working lifetimes, almost all workers who have employment subject to the civil service retirement system. During their first 5 years of Federal employment, Federal employees, including those who intend to make a career in Federal service, do not have survivorship or disability protection under the civil service retirement system. 4/

About 20 percent of the employees subject to the Federal civil service retirement system, as of any one date, have less than the 5 years of service needed for such protection. While the incidence of death and disability is low among these younger workers, the economic effects on a young family are disastrous when death or total disability does cut off the family income.

Even after an employee has completed 5 years of service and becomes eligible for protection under the civil service retirement system, it generally requires many more years of Federal service before his family survivorship protection under the system reaches the level that would have been afforded by social security if his Federal service had been covered under social security. In some situations family survivorship protection under the civil service retirement system never reaches the social security level regardless of the length of Federal service. In disability cases, the civil service retirement system guarantees certain minimum benefit levels after 5 years of service (generally 40% of high-5-year average pay) which are generally higher than social security provides for a disabled worker who has no dependent family. But family disability protection is in many cases less than under social security because social security provides benefits to family dependents of a disabled worker while the civil service retirement system pays benefits to only the disabled worker himself. 5/ In other situations, the civil service benefits are higher than social security benefits, though exceptions are not uncommon in individual cases.

^{4/} When a Federal employee with less than 5 years of service dies, becomes disabled, or leaves Federal service, he (or his survivors) receives a refund of his contributions to the civil service retirement system (plus interest if he had at least one year of service). Many employees also carry life insurance under the Federal employees group life insurance program. The Federal employees compensation program provides benefits in the event of workconnected disability or death.

^{5/} In general, to be eligible for disability benefits under social security a worker must be unable to engage in any substantial gainful activity; under the more liberal definition of disability of the civil service retirement system, an employee is eligible for disability benefits if he becomes unable to perform the the duties of his job or a similar job.

The following table indicates the types of situations where benefits payable under the civil service retirement system are generally lower than the benefits that would have been payable if the worker had a similar earnings record in work covered under social security. The table roughly indicates the differences between the amounts of the two benefits for workers with annual pay of \$6,000, \$7,800, and \$10,200, and the number of years of Federal service it would take to yield civil service benefit amounts equal to the social security monthly benefit shown.

Table 2. Illustrative cases in which CSR benefits are less than social security benefits

	Average	Monthly Be	nefits 1/	Years of Service	
Beneficiaries	Monthly Salary	CSR 5 yrs' Service <u>2</u> /	Social Security <u>3</u> /	At Which CSR Equals SS	
Widow and one	\$500	\$ 78	\$266	40	
child	650	84	327	40	
OILII	850	92	327	31	
Widow and two	500	135	375	\$334 max at 42 years	
children	650	141	434	\$400 max at 42 years	
Ciliaron	850	149	434	36	
Surviving child	500	69	133	CSR pays flat amount	
alone	650	69	164	which never reaches	
arone	850	69	164	SS level	
Totally disabled	500	200	355	37	
worker with wife,	650	260	432	35	
one child $\frac{4}{}$	850	340	432	27	

^{1/} It is assumed that the worker is employed from age 22 (in 1968) until death or disability.

2/ The CSR annuities are those that would be payable at earliest eligibility (i.e., after 5 years of Federal service).

Other inadequacies in protection are associated with the considerable employee mobility between Federal and private employment. In the 5 years from 1963 to 1967, an average of about 400,000 employees a year either entered or left Federal employment covered by the civil service retirement system. Workers who leave Federal employment, whether or not they have 5 or more years of service, immediately lose all survivorship and disability protection under the

^{3/} Social security benefit amounts, assuming level salary, would be the same if death or disability occurred after 5 years or after a longer period of employment. The maximum annual earnings that can be counted in determining a worker's lifetime average earnings under social security is \$7,800 for 1968 and thereafter.

Minimum CSR disability benefit amounts are ordinarily computed at 40% of high-5-year average salary. CSR does not pay benefits to families of disabled employees.

civil service retirement system, and a large proportion do not have social security survivorship protection until they have worked at least a year and a half—or social security disability protection until they have worked from a year and a half to 5 years (depending on their age)—after leaving Federal employment. Some of them have never worked under social security. Others have lost social security protection they had once acquired through previous work. A few are still insured for social security survivorship or disability benefits when they leave Federal employment but their protection is generally impaired because social security benefit amounts will not reflect their recent earnings and may be quite low because of the length of time spent in non-covered work.

Many of the workers who shift between Federal and private employment become eligible under only one system—either social security or civil service retirement—for benefit amounts which are low in comparison to total earnings because they lose credit for the years of service they had under the other system. Some workers may end up without eligibility for benefits under either system.

Of the many thousands of workers who each year leave Federal employment in which they are covered by the civil service retirement system, only a small proportion eventually receive a retirement benefit based on their service. Studies of people who left work in which they were covered by the civil service retirement system show that less than 1 in 12 gained and kept any protection under that system as a result of the Federal service. The number of deferred annuities awarded in recent years has averaged less than 4,000 a year. About one-third of those who left did so after they had met the eligibility requirement of a minimum of 5 years of service. Employees who leave after 5 years of Federal service may either take a refund of their civil service contributions (generally without interest) or forego refund and obtain a deferred annuity beginning at age 62. 6/ Of those who separated after 5 or more years of coverage under the civil service retirement system, but before retirement, more than three-fourths voluntarily withdrew their contributions soon after separation and thereby lost all rights to benefits under the system. These rights may be regained only if a worker re-enters Federal employment and is again covered by the system. The following table shows the number of Federal employees who claimed refunds of their civil service contributions in recent years.

Table 3. Refund claims received by the U.S. Civil Service Commission

Fiscal Year	Refund Claims
1963	135,761
1964	127,863
1965	119,376
1966	129,170
1967	164,851

^{6/} As noted earlier, employees who leave with less than 5 years of service receive a refund, with no option as to a deferred annuity.

2. Relationship of the Federal employees health benefits program to the Medicare program

Enactment of Medicare in 1965 initiated a national policy of providing health insurance under the social security program for persons age 65 and older. A health insurance program for Federal employees and retirees became operative in 1960. Considering that over the years millions of workers will have their working lifetimes divided between Federal employment and work covered by social security, there is a clear need to develop an appropriate relationship between the two programs.

The Federal employees health benefits program

The Federal Employees Health Benefits Act of 1959 makes available to Federal civilian employees and their dependents health insurance protection under a participating private plan of their choice. About 9 out of 10 employees have elected to be covered. The great majority of Federal civilian annuitants who have retired since June 1960 \(\frac{7}{\)} \) and their survivors have elected to continue their coverage under the FEHB program after retirement. The program is financed on a current basis by premiums paid in part by employees and annuitants and in part by the Government. Employees and annuitants have a choice between high and low option coverage, and a choice among a number of plans. Most of the employees are enrolled in either of two Government-wide plans.

In general, the Government contributes 50% of the cost of low-option coverage and employees and annuitants bear almost all of the extra cost of the additional protection under the high-option plans. About 86% of employees and annuitants select high-option coverage despite its higher cost to them, with the result that, overall, the Government is currently paying about one-third of the cost of the program. Because of the limits set by present law on the amount of Government contributions, an increase in premium rates beginning January 1, 1969, is almost entirely added to the premiums paid by employees and annuitants, and as a result the Government contribution is now about 28 percent of the cost of the program. 8/

Federal employees retiring after June 1960 (and their survivors) pay the same premium rates as active employees, though health care costs for retirees and their dependents are about 2 1/2 times as high as those of active employees and their dependents. The older group makes greater use of the more costly services, particularly hospitalization. The proportion of elderly people in the entire group is certain to increase for some time to come; at present the size of the older segment is considerably reduced by the limitation that only

There are special provisions for those retired before July 1960 and their survivors. The great majority have the hospital insurance part of Medicare, many having been covered by a special transitional provision, applicable to people who reached age 65 before 1968, and, like practically all other persons, may at age 65 participate in the supplementary medical insurance part of Medicare.

^{8/} Appendix D shows premium rates of the Government-wide FEHB plans.

those retired since June 1960 are included. With a uniform premium rate for the older and younger members of the group, the young will be paying increasingly higher premiums than what would be required to cover their own health care costs, in order to help finance the higher costs of the older group.

Table 4. Comparison of increases in the cost of hospitalization with increases in the cost of other medical care

	Consumer Price Index				Increase	
	1960	1962	1964	1966	1967	1960-1967
Consumer Price Index	103.1	105.4	108.1	113.1	116.3	+12.8%
Medical care, total	108.1	114.2	119.4	127.7	136.7	+26.5%
Physicians' fees	106.0	111.9	117.3	128.5	137.6	+29.8%
Hospital service (daily service charges)	112.7	129.8	149.9	168.0	200.1	+77.6%

Source: Handbook of Labor Statistics, 1968, Bureau of Labor Statistics

As is true of other health insurance plans, the rising cost of benefit payments under the Federal employee health plans has tended to overtake the income from premiums. The increasing level of benefit payments under the high-option plans resulted in benefit payments exceeding premium income of the plans in 1964, and in benefit costs and other expenses exceeding premium income in 1965. Yearly premium increases for high-option coverage since 1965 and scheduled benefits which are not paid by the FEHB plans to members who are covered by Medicare, have ameliorated the situation. However, the gross benefit cost per capita has continued to rise because of the rising cost and increased utilization of health services, and the increasing proportion of annuitants in the covered group, so that premiums have been further increased beginning with January 1969. 9/

Medicare

Medicare includes two related health insurance programs for persons age 65 and over: "Part A"--a basic plan providing protection against the costs of hospital and related care; and "Part B"--a voluntary supplementary plan covering payments for physicians' services and certain other medical and health services. $\underline{10}$ /

<u>9</u>/ Appendix D shows benefit experience by patient category under high-option FEHB plans.

^{10/} Appendix E summarizes major benefits under Medicare and under the Government-wide service benefits plan (high-option) of the FEHB program.

People covered under Part A are mainly those who have reached age 65 and are entitled to monthly benefits under the social security or railroad retirement programs. Under a special transitional provision, Part A coverage was extended to most other persons who reached age 65 before 1968 and who are not insured under the social security or railroad retirement programs, including some retired Federal employees. However, those Federal employees retiring after June 1960 who are covered or could have become covered under the FEHB program after February 15, 1965, were not brought under Part A by the special transitional provision.

Part A protection (the more costly part of Medicare) is financed on a prepayment basis through a separate earnings tax (at present 0.6% on earnings up to the tax base of \$7,800 a year) paid by employers, employees, and self-employed persons, except that benefits for persons who qualify under the special transitional provision are financed out of Federal general revenues.

Enrollment for Part B protection is open to practically all persons reaching age 65, including Federal employees and annuitants. Part B is financed by a monthly premium (now at a standard rate of \$4.00) paid by the enrollee and a matching amount paid by the Federal Government out of general revenues.

In general, the health insurance protection afforded the aged under Medicare is not far below the level provided under the FEHB low-option Government-wide plans but is substantially below the level provided under the high-option plans. Medicare protection is of course oriented to the aged; it thus does not include the maternity and related benefits provided under the FEHB plans but does include coverage of care in an extended care facility after a hospital stay.

Difficulties arising from employee mobility

The difficulties arising because Federal civil service employment is not covered under Medicare, like some of the difficulties arising in the cash benefits area, are associated with the considerable movement of workers into and out of Federal employment. Inequalities in protection, subsequently discussed, result for many of these workers who, on reaching retirement, will have contributed to both Part A of Medicare and to the FEHB program. The number of workers contributing to both Part A of Medicare and the FEHB program 11/ is much larger than the number whose cash benefit protection is affected because of the movement between work covered by the civil service retirement system and work covered by social security. This is so because many of the 300,000 temporary Federal employees (covered under social security and excluded from civil service retirement system coverage) participate in the FEHB program. Data for recent years show that, when movement into or out of temporary Federal jobs is included, about one million employees a year are involved.

Active Federal employees as a group contribute toward the protection of retired workers because, while the premium rates of active employees are the same as those of retired workers, their health care costs are much lower than those of retired workers.

On reaching age 65, the many workers who contribute under both programs will be in one of the following categories:

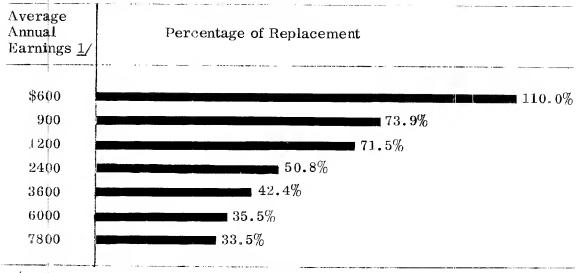
- (a) Eligible for health insurance protection under one of the two programs, with no advantage obtained from contributions that were made to the other program. For example, over the long run, when 10 years of social security coverage will be needed to be insured under Medicare, a worker might contribute under the Medicare program for 8 or 9 years, and then go into Federal employment for the remainder of his working lifetime. On the other hand, a worker might have coverage under the FEHB program for a number of years, during which he contributes toward the protection of older members of the program, and his FEHB protection terminates when he leaves Federal employment. In both cases, the worker has contributed for a time to health benefits for others and not for himself.
- (b) Eligible under both programs, but with considerable duplication of health insurance protection. This group gets somewhat better protection than that afforded under the FEHB plans alone, but not the full value of the protection of both Medicare and FEHB. Under nonduplication clauses in the Federal employee health benefits contracts, the FEHB plans do not pay health care expenses that are payable by Medicare.
 - Federal employees who qualify for Part A of Medicare on the basis of social security contributions paid during only part of their working years receive the same level of Medicare protection as workers who are regularly in employment covered by social security and who pay social security contributions throughout their work lifetimes. This raises a question of equity from the standpoint of those who are covered under the social security program for all or almost all of their working years and who pay not only toward their own Medicare protection but also bear part of the cost of Medicare protection obtained by workers who are in Federal employment during a substantial part of their working years.
- (c) Not eligible under either program. The public policy implemented by the Medicare program—that workers generally should have health insurance protection after age 65—brings into question the propriety of an arrangement under which some civil service retirees do not have such protection. In most of the instances involving civil service retirees, the lack of protection is attributable to a choice made by the individual. No such choice is available to workers generally, as the public policy objective is not only the protection of individuals but also the protection of society as a whole against the adverse effects of dependency in old age.

Annuitants receiving substantial civil service retirement benefits who also qualify for heavily-weighted social security benefits

The social security program, in accordance with social insurance principles, provides heavily-weighted benefits for persons who have had especially low earnings over their whole work lifetimes and whose benefits would be inadequate for minimum sustenance if their average earnings were replaced in the same proportion as provided for higher-paid workers. Such benefits, though low, represent a high return on a worker's social security contributions. The House Committee on Ways and Means and the Senate Committee on Finance expressed concern about situations in which a career Government worker with a substantial salary (which is of course the basis of a substantial retirement annuity in the case of long-term workers) has a relatively short period of social security coverage, credits for which yield a low lifetime average of earnings covered under social security because the divisor for determining this average includes many months of noncovered employment. This results in his receiving the heavily-weighted social security benefits not intended for payment to a beneficiary who actually had substantial earnings while he worked in covered employment.

As the following chart indicates, the weighting in the social security benefit formula is heaviest at the average-earnings levels where the minimum benefit (\$55 a month--\$660 a year--for a retired worker) is payable. Benefits begin to exceed the minimum when average earnings reach \$900 a year. The weighting in the formula is diminished rapidly as the average earnings reach levels in excess of \$1200 a year.

Chart 2. Percentage of covered pay replaced by social security benefits payable to a single retired worker



1/ Lifetime average earnings for social security computation purposes.

Federal annuitants who receive minimum or near-minimum social security benefits

Preliminary data from a current study indicate that a little more than 40 percent of annuitants retired from the Federal service who were included in the study were drawing social security benefits. 12/ The distribution of those receiving both benefits is as follows:

Table 5.

Amount of monthly social security benefits (as of February 1968)	Percent of dual beneficiaries
\$55 or less	35.0
\$55.10 - \$84.90	26.0
\$85.00 and over	39.0

The median civil service annuity for those receiving minimum social security benefits (\$55 or less) was about \$190 per month, compared with about \$210 per month for all civil service annuitants. The median civil service pay (high-5-year average) of those receiving minimum social security benefits was about \$4,800 compared with about \$5,000 for all annuitants. The median civil service annuity of annuitants receiving social security benefits represented 26 percent of high-5 average salary. 13/ When social security benefits are included, the median wage-replacement ratio rises to 41 percent which is only a little higher than the ratio (37 percent) for annuitants not receiving social security benefits.

Thus it is apparent that while more than 40 percent of the annuitants are drawing social security benefits, many of those receiving both benefits have sufficient periods of social security coverage in work other than Federal employment to get social security benefits that are above the minimum and close-to-minimum amounts. Of those who receive minimum or close-to-minimum social security benefits, many get relatively low civil service annuities, reflecting either low salaries, or short service, or both. As a result, most dual beneficiaries receiving heavily-weighted social security benefits do not get total benefits under the two systems that are excessive in relation to their prior earnings.

Of those retirees whose annuities may be regarded as "substantial" and who also get minimum social security benefits, about 13 percent had 35 or more years of civil service, and another 9 percent had 30-34 years of service; approximately 7 percent had high-5-average civil service pay of \$7,800 or more and another 16 percent had high-5-average pay of \$6,000-\$7,799.

¹²/ The number of civil service retirees (including disability retirees) in the study is 497,609--86 percent of all annuitants.

^{13/} For purposes of this calculation, salaries earned by annuitants in the past when salary levels were relatively low have been adjusted to permit comparison with current annuity amounts which have been increased from time to time to compensate for cost-of-living increases, as well as with social security benefit amounts.

For purposes of determining the size of the group (insofar as Federal employees are involved) with which the Committees are most concerned, we have considered several combinations of criteria. For example, the group could reasonably include Federal civil service annuitants with (a) 35 years or more of public service (the Federal civil service retirement system pays annuities based on 35 years of service that replace 2/3 of the annuitant's high-5-average salary); (b) a high-5 average roughly equal to or more than the average annual pay of Federal employees in the United States—about \$8,100; and (c) a social security benefit under \$85 a month (the most heavily-weighted social security benefit amounts fall below \$85). In the current study persons with 35 years of service, a high-5-average salary which when adjusted to today's wage scales would equal roughly \$8,100, and a social security benefit under \$85 a month, number approximately 6,200 people out of 581,000 retirement annuitants, or about 1.1 percent.

Alternatively, the length-of-service criterion could be set at 25 or 30 years, though over the long run workers with Federal service totaling 25 or 30 years will be more likely than those with 35 or more years of service to have substantial periods of employment covered under social security and thus would be likely to qualify for social security benefits above the minimum and nearminimum levels. The civil service retirement benefits of Federal employees with 25 to 30 years of service would be from 15 to 30 percent below the benefits of workers with 35 years of service and the same high-5-average salary, and their combined social security and civil service benefits would not be likely to be excessive in relation to their lifetime earnings. Even a person with 35 years of Government service who had a high-5 average of \$7,800 (and a salary at the time of retirement probably in excess of \$650 a month), would, if also receiving the social security minimum benefit, have a monthly income from both benefits of \$486--a reduction of over 25 percent from the level of his Federal salary at retirement. If annuitants with from 30 to 34 years of Federal service were also included in the group under consideration, the sum of the civil service and social security retirement benefits of some members of the group would represent a reduction of income in retirement of as much as one-third.

Of all persons in the study who are getting both civil service retirement annuities and heavily-weighted social security retirement benefits, about 1,550 receive combined benefits that replace more than 80 percent of their high-5-year average pay in Federal service. These 1,550 annuitants constitute 0.6 percent of the total number (about 250,000) who receive benefits from both civil service retirement and social security.

The number of cases in which long-term Federal employees receive heavily-weighted benefits under social security as well as substantial civil service retirement benefits will gradually decrease as longer periods of covered work are required to become insured for social security retirement benefits, and as a result of social security coverage having become more universal. A

man reaching age 65 in 1969 will need 18 quarters of covered work to be insured for social security retirement benefits; eventually—by 1991—40 quarters of coverage will be required for insured status.

The social security coverage of a worker who is in covered work for 10 years or more would in most cases reflect full-time employment rather than occasional or part-time work. Social security benefit amounts based on at least 10 years of full-time covered work will almost always be somewhat above the levels where the benefits are heavily-weighted, though over the long run the benefit amount obtained by the 10-year worker will of course be much smaller than that obtained by the worker covered during his entire work lifetime. There will of course always be a few cases in which workers whose primary employment is not under social security will get 40 or more quarters of coverage through secondary employment that is intermittent or part-time.

Non-Federal annuitants who receive minimum or near-minimum social security benefits

The type of situation about which the Committees expressed concern obviously is not limited to Federal civil service retirees. The situation arises in all areas of employment where the worker is covered under a staff retirement system but not under social security. A major area is that segment of employment for State and local governments, which is not covered under social security, involving about 2.4 million public workers, whose public employment is covered by a staff retirement system. Instances of benefit payments made by both social security and those State and local government retirement systems whose members are not covered by social security are comparable to those arising between social security and the Federal civil service retirement system. Such situations also occur with respect to a sizeable number of retired railroad workers who receive retirement benefits under both social security and the railroad retirement system, despite a limited coordination of the two programs. The problem also is present, to a less significant extent, in employment for those few nonprofit organizations which have not chosen to cover their employees under social security.

Approved For Release 2003/12/02 : CIA-RDP71B00364R000300200001-2 POSSIBLE SOLUTIONS

1. Extension of social security coverage to Federal employment subject to the civil service retirement system

Social security coverage of Federal employment subject to the civil service retirement system—i.e., coverage on the same mandatory contributory basis that is applicable to virtually all areas of private employment, to temporary Federal employees and to all members of the Federal uniformed services—has long been recognized as having certain advantages over other possible ways of relating the protection provided by the social security and civil service retirement systems.

Advantages

Social security coverage would afford Federal employees the combination of basic protection under social security and supplemental protection under a staff plan that has been afforded many other workers who are covered under staff-retirement, private-pension, or profit-sharing plans. It would fill gaps in survivorship and disability protection of short-service workers since social security survivorship protection, and disability protection for young workers, would arise after as little as 6 quarters of coverage. It would provide carryover survivorship and disability protection for workers who leave Federal employment before retirement since social security credits would continue to be built up during periods of Federal employment. The deficiencies in protection of many of the Federal employees with 5 or more years of Federal service would be overcome because benefit amounts would always be at least at the social security level.

Under present law, some workers who are in Federal employment during the major part of their working lifetime also have some social security credits based on other work, but not enough credits to be insured under social security. Social security coverage of Federal employment would assure that such credits would count toward benefits; the credits would be added to the social security credits based on covered Federal employment and would augment a worker's lifetime social security benefit.

Social security coverage would assure Medicare protection at age 65 for all Federal employees and their spouses. Present overlaps between Medicare and the Federal employees health benefits program could thus be eliminated and the latter program could provide planned supplementation to the Medicare benefits for retired Federal employees.

In all instances in which working lifetimes are divided between work now covered by social security and work subject to the civil service retirement system, the monthly benefit amounts payable would be reasonably related to lifetime earnings and contributions.

Proposals made in the past

When the Social Security Act was passed in 1935, the Federal civil service retirement system was a well-established system, already having been in operation for 15 years. The importance of considerations such as the impact of employee mobility was not immediately recognized. Also, the benefits initially provided under the new social security program were relatively low, and did not include the survivorship, disability, and Medicare benefits that are now an important part of social security protection. All other public employment, as well as large segments of private employment was also excluded from social security coverage initially, and was not included until the coverage of the program was greatly expanded in the 1950's.

It subsequently became increasingly evident that the failure to relate staffretirement system protection of Federal employees to the social security program has created serious difficulties for many workers who have Federal employment, and for their families. Early efforts and recommendations were largely aimed at extension of social security coverage to Federal employees on the contributory basis applicable to employees in industry, generally with the benefits and contributions to the civil service retirement system reduced to take into account the social security benefits and contributions. The 1948 Advisory Council on Social Security, established by the Senate Committee on Finance, recommended that a plan be developed for covering Federal civilian employees under social security, and that as an immediate temporary measure some of the gaps in protection of Federal employees be filled by transferring credits to social security. In 1953, the Subcommittee on Social Security of the House Committee on Ways and Means (Curtis Subcommittee) recommended that Federal civilian employees be covered by social security, with appropriate adjustments made in the civil service retirement system.

The Committee on Retirement Policy for Federal Personnel (the Kaplan Committee) in 1954 recommended specific plans under which virtually all personnel of the Federal Government would be covered under social security. Under the plan applicable to the civil service retirement system, the civil service benefits and contributions would have been reduced to take into account that social security benefits and contributions would be payable, but the overall protection afforded civil service employees would have been substantially improved. The Eisenhower Administration in 1956 recommended that Congress enact proposed legislation carrying out the Kaplan Committee recommendations. The Congress extended coverage to members of the uniformed services but continued to exclude civilian employees subject to the civil service retirement and other staff retirement systems. Subsequently, other coverage recommendations were made, and bills addressed to the problem were introduced in the Congress, but none was enacted.

Present problems in developing an acceptable coverage plan

In view of the independent development of the civil service retirement and social security systems over a long period of time, and because of the benefit liberalizations in the civil service retirement and social security systems since the mid 1950's, the extension of social security coverage to civil service employment would now entail high costs.

The civil service retirement system is financed by employee contributions, currently 6 1/2 percent of pay, and by a matching contribution from the Government. The normal cost (13.86 percent of payroll) is defined as the percentage of the salaries of new employees that is required to be paid into the civil service retirement and disability fund, from the time they enter service until they leave service, in order to accumulate sufficient amounts to pay their benefits. When the fund was originally established, credit given to employees for their prior service during which "normal costs" had not been paid, created a "deficiency" liability, which has grown through the years for various reasons, such as liberalization of benefits (including benefits based on prior service) and more recently by automatic cost-of-living increases in annuities. The deficiency now amounts to \$53 billion so that 13.86 percent of payroll (normal cost) plus financing of the deficiency is required for level financing of the system.

The social security employee contribution rate for 1969 is 4.8 percent of pay up to \$7,800 with a matching amount paid by the employer. The contribution rate is scheduled to rise to 5.9 percent of pay for 1987 and following years, so that the combined contribution rates for the employee and employer are scheduled to level off at 11.8 percent of pay up to \$7,800 a year.

Accordingly, the extension of social security coverage to Federal employment without making adjustments in the civil service retirement provisions (herein referred to as the fully-additive approach) would cost-based on the systems' cost discussed above--over 25 percent of pay up to \$7,800 and 13.86 percent of pay above \$7,800, apart from the financing of the deficiency liability of the retirement fund.

A fully-additive approach would go beyond filling gaps in the retirement, survivor, and disability protection of those who shift between Federal employment and other work and would provide benefit amounts which for many career employees would be very high when compared with prior earnings levels. Since Federal workers could get full benefits under both the civil service retirement system and the social security system, it would not be rare, under this approach, for Federal workers to retire with benefits that equal or exceed their salaries. For example, an individual who worked in Federal employment from age 22 to 65, with a high-5-average of \$10,000 would receive a basic civil service retirement benefit of \$8,000 a year. Under social security he and his wife, after she reaches 65, would get social security benefits (based on an average of \$7,800 a year for social security purposes) of \$3,876 a year. Their total benefits under civil service and social security would be \$11,876 a year-more than 118 percent of high-5-average salary.

Thus a substantial part of the cost of extending social security coverage to civil service employment would not go toward filling gaps in protection but toward increasing the total retirement benefits (under civil service retirement and social security together) of long-service Federal employees who now, under present law, can get substantial benefits. Employees with 35 or more years of service receive retirement benefits which replace 66 1/4 percent to 80 percent of their high-5-average salaries.

The fully-additive approach has been used to extend social security coverage to some Government employees. 14/ Social security coverage has been extended to employees covered under some State and local government retirement systems without adjustments in the provisions of the staff-retirement systems. In most such cases, however, the staff-retirement system benefits payable were low, and when social security benefits were added the resulting total was generally well below the level which would be reached by adding social security benefits to those of the Federal civil service retirement system.

A consideration which would be applicable to any plan involving compulsory social security coverage of Federal employees is that some employees believe they would not receive, because of their personal situation, enough additional financial advantage from the social security coverage of their Federal work to make it personally advantageous to pay social security contributions.

Some Federal employees who intend to remain in Federal employment until they retire but who expect to qualify for social security benefits on the basis of non-Federal work, regard the advantage accruing from additional social security coverage as not worth the additional contributions they would pay. Because social security benefits based on low average earnings are heavily—weighted, the increases in social security benefits from the coverage of Federal work for people who are already insured for social security benefits on the basis of non-Federal work would not be as large relative to the social security contributions they would pay on the basis of their earnings from Federal employment as in the case of the benefits which would be payable without Federal coverage; however, for most such employees the additional social security protection would still represent a good buy.

^{14/} When social security coverage was extended to the Federal uniformed services in 1956, various existing survivor provisions were adjusted to take the social security coverage into account but no reduction was provided in the retirement benefits under the existing staff-retirement systems. One consideration was that the formula for computing the retirement benefits—both the social security benefits and the staff-retirement benefits—of members of the uniformed services is applicable to military base pay and thus does not reflect the value of noncash items which represent a substantial part of the total pay of most servicemen. (Most servicemen do not qualify for staff-retirement benefits. To improve the social security protection resulting from coverage of the military base pay, the Congress provided, beginning with 1968, additional social security wage credits, generally \$100 a month, for active duty service.)

In many cases, women Federal workers expect to qualify for a wife's or widow's social security benefit on their husband's account and believe that it would not be to their advantage to have their Federal work covered under social security and to pay the social security contributions. Finally, some older employees who have had no previous social security coverage may expect that they will not be covered under social security long enough to become insured before they retire.

Some employee organizations have expressed their belief that social security coverage of employment subject to the civil service retirement system should be optional for each employee. Optional social security coverage, however, would not fill the gaps in protection because many of those most needing social security protection would not elect coverage. On the other hand, the coverage would probably be elected by higher-paid employees who could afford to pay the additional contributions, and so the Government's increased cost would largely go toward enhancing the benefits of this group.

Alternatively social security coverage could be extended to Federal employment covered by the civil service retirement system, with some reduction in benefits and contributions under the civil service system to take account of the benefits and contributions of the social security system (herein referred to as a coverage-coordination approach). Any coverage-coordination plan that could be considered realistic would be designed so that the combined protection provided under the civil service retirement system and social security would-for every employee—be at least equal to and usually somewhat superior to that provided under the present civil service retirement system alone.

The coverage-coordination approach more than any other has the potential for assuring that, in the case of people who shift between Federal employment and other work, there is a reasonable relationship between benefit amounts, lifetime contributions, and service. Under this approach, the combined benefits payable under social security and the civil service retirement system (and also the combined contributions) would be at a planned and systematic level, since the civil service retirement system benefit levels would be modified to take into account that social security benefits would also be payable.

However, a coverage-coordination plan would require increases in certain benefits above the increases necessary to fill gaps in protection, particularly retirement benefits for many long-term career employees, which have already been considerably increased in recent years. Such increases would result because of the need to avoid deliberalizing present benefits of some other employees. For example, if an unmarried worker's civil service retirement benefit is reduced under a given formula so that the total of his reduced annuity and his social security benefit is slightly in excess of the civil service retirement annuity provided under present law, the same formula will, in effect, give a married worker with a somewhat similar record of earnings and service a substantial increase because of the social security wife's benefit that will be payable to his spouse.

Thus if civil service retirement benefits, adjusted under a coverage-coordination plan, are set high enough to assure that the sum of the civil service and social

security benefits will be in all instances at least as high as present civil service benefits, large increases, which seem difficult to justify, would result in the combined benefits which would be payable in some cases. Such increases in benefits would increase the cost of the coverage-coordination plan beyond what is necessary merely to fill gaps in existing protection. 15/

Organizations of Federal employees have generally objected to any coverage-coordination proposal because they apparently fear that once social security coverage is provided the role of the civil service retirement system in providing protection for Federal employees would become much less important and that further improvements in their retirement, survivors, and disability protection would tend to be limited to those made in the social security system.

Many present Federal employees with long service apparently believe that a coverage-coordination approach, looked at from a personal point of view, would not increase their overall protection enough to make social security coverage desirable for them. Further, annuitants under the civil service retirement system can earn any amount in non-Federal work without such work affecting their annuities, while social security beneficiaries may have part or all of their benefits withheld under a retirement test which applies to all earnings. 16/ Therefore, long-term career Federal employees who expect to work in non-Federal employment after reaching social security retirement age anticipate that they would lose by getting only the reduced benefit under the civil service retirement system, and no social security benefit, for a period of time after they leave Federal employment.

These existing problems, which up to now have precluded coverage under social security of Federal employment which is covered under the civil service retirement system, have led other groups who have studied the matter in recent years to seek solutions in alternatives to direct coverage. Such alternatives were presented by the President's Cabinet Committee on Federal Staff Retirement Systems, which reported its findings and recommendations in 1966; the United States Civil Service Commission and the Social Security Administration, which jointly reported their findings in 1965; and the Advisory Council on Social Security which also reported in 1965. 17/

^{15/} While the cost of a coverage-coordination plan would depend on the specific provisions of the plan, it appears that any workable plan would have a "normal" cost of 6 percent of civil service payroll (3 percent each for employer and employee) and might well cost substantially more.

Under the social security retirement test, benefits are paid to people and or age 72 only if they are substantially retired from work. Generally speaking, a beneficiary who earns less than \$1,680 in a year receives all his social security benefits; a beneficiary who earns more than \$1,680 in a year has \$1 in benefits withheld for each \$2 in earnings between \$1,680 and \$2,880, and for each \$1 of earnings above \$2,880.

Earlier reports on social security and Federal employment are summarized in Appendix F.

2. Possible measures which could provide an alternative to coverage

We considered a number of measures which might be adopted as an alternative to the extension of social security coverage to civil service employment. Among the possibilities considered were the following, each of which would deal with one major aspect of the existing problems:

- (a) Where there is no benefit eligibility under the civil service retirement system when a worker dies, becomes disabled, or retires, credits could be transferred from the civil service retirement system to social security.
- (b) Where there is benefit eligibility under the civil service retirement system, the civil service benefits (or if social security benefits based on other work are also payable, the civil service and social security benefits together) could be guaranteed to be at least as high as if employment subject to the civil service retirement system had been covered by social security.
- (c) Medicare hospital insurance coverage (Part A) could be extended to all Federal employees; they could then advantageously participate in Part B (voluntary supplementary medical insurance) of Medicare, and complementary health insurance could be made available under the Federal employees health benefits program to provide more comprehensive protection after age 65 than is provided under Medicare.

The above-described measures would be concerned with remedying the principal difficulties that have arisen in the absence of social security coverage of civil service employment. They would not achieve all of the results that would be achieved by extension of coverage. For example, they would not prevent situations in which some long-service Government retirees also qualify for minimum or near-minimum social security benefits, nor would they permit Government retirees to get retirement credit for relatively short periods of social security coverage—insufficient to make them insured under social security. Various possibilities which might achieve these results were also studied.

Following is a more detailed description of possible measures which could, in combination, provide an alternative to extension of social security coverage to civil service employment.

a. Transfer of credits to social security

Credits would be transferred from the civil service retirement system to social security for the Federal service of--

(1) People who die, become disabled, or separate from work covered under the civil service retirement system after less than 5 years of Federal service. Example: Worker becomes totally disabled or dies after working one year under social security and then 4 years under civil service retirement. Under present law no monthly benefits would be payable under civil service retirement or social security. Under the transfer-of-credit plan, if the worker were disabled he would get

monthly social security benefits of \$218, and if he has a wife and child, the family would get benefits of \$432; if he died his widow and child would get monthly social security benefits of \$327. 18/

- (2) People who separate after 5 or more years of Federal work, obtain refunds of their contributions to the civil service retirement system, and later die, become disabled, or retire. 19/ Example: Worker has 6 years of employment under the civil service retirement system, and separates, taking a refund of civil service retirement contributions. He then works one year under social security, and then dies. Under present law, no monthly benefits would be payable under civil service retirement or social security to his widow and two children. Under the transfer-of-credit plan, monthly social security benefits of \$434 would be payable to the surviving family. 18/
- (3) People who separate after 5 or more years of Federal work, do not take refunds of their contributions to the civil service retirement system, and die or become disabled before age 62. Example: In the case given in the previous example (except that there is no refund) no monthly benefits would be payable under civil service retirement or social security to the worker's widow and two children under present law; under the transfer-of-credit plan, monthly social security benefits of \$434 would be payable to the surviving family. 18/

Application of the plan

The transfer-of-credit plan would be applicable to Federal employment performed on or after a specified future date, such as the first day of the year following the enactment of legislation. For those in Federal employment on the effective date, the plan would also be applicable to employment during the preceding 1 1/2 year period, thus assuring immediate survivor protection for the families of such workers. No credits for Federal service would be transferred to social security until a valid claim is filed on the social security account of a worker who had Federal employment covered under the civil service retirement system, and it has been determined that the worker is not entitled to protection under that system.

^{18/} Appendix F shows additional illustrative monthly benefits that would be payable under a transfer-of-credit plan. The above benefits are computed on the basis of assumed earnings of \$7,800 a year in civil service retirement or social security work.

^{19/} As subsequently explained, under the transfer-of-credit plan, there would be withheld from refunds of civil service contributions an amount equal to the social security contributions which the worker would have been required to pay if his Federal employment had been covered under social security.

Financing transfer of credits

The financing provisions of a transfer-of-credit plan should be designed to allocate as fairly as possible between the social security and civil service retirement systems the cost of the social security benefits that would be paid under the plan. This objective could be achieved by providing that the social security trust funds be reimbursed annually, with interest from the date of benefit payment, for the proportionate cost, attributable to transferred credits for Federal service, of social security benefits paid during the year.

For example, if in the case of a deceased employee the total earnings credits for Federal service transferred to social security were \$8,000 and credits previously earned under social security were \$16,000, the transferred civil service credits would be one-third of the combined amount of the social security and civil service retirement credits (one-third of \$24,000). If in this case the surviving family had been paid social security benefits of \$3,000 during the year, the social security trust funds would be reimbursed for \$1,000 of the cost of the benefits paid--the proportionate cost attributed to the transferred credits.

A substantial part of the cost of the benefits—the only part of the cost borne by employees—would be met by those employees who would have credit for their Federal work transferred to social security; the civil service retirement system would withhold from all refunds of contributions to employees who separate (or to their survivors) an amount equal to the social security contributions that the worker would have been required to pay if his Federal employment had been covered under social security. The amounts so withheld (and the interest earned on them) would be available in the civil service retirement fund to help meet the cost of reimbursing the social security trust funds.

Expenditures in excess of income by the retirement system on account of the transfer-of-credit plan would be very small in the early years of operation of the plan, and would ultimately rise to a cost estimated to be about one-half of one percent of payroll subject to the civil service retirement system.

Under this financing method, active Federal employees who have monthly benefit protection under the civil service retirement system at the time they retire, become disabled, or die, would bear no part of the cost of the transfer-of-credit plan. The only cost of this plan to be borne by Federal employees would be the cost of social security contributions paid by those who separate after the effective date and, instead of receiving a full refund of their civil service retirement contributions as now, they would get their refund minus amounts equivalent to the social security contributions. In effect, they would be paying social security contributions and getting social security protection.

Employee representatives, practically unanimously, expressed concern that the cost in excess of the amounts withheld from refunds might eventually be charged, at least in part, to the employees covered by the retirement

system. One suggestion for forestalling this result was that the Government, as employer, reimburse the social security trust funds from general funds of the Treasury for that part of the cost of the transfer of credits which is in excess of the amounts withheld from refunds, presumably under a permanent indefinite authorization. Under this financing method the civil service retirement system would transfer to the social security trust funds annually the amounts withheld from refunds during the year, rather than, as in the method discussed above, retaining the withheld amounts until they are used, with other funds, to reimburse social security annually, on a proportionate basis, for the cost of social security benefits paid during the year.

Reverse transfer of credits not feasible

Consideration has been given to the idea of also transferring social security credits to the civil service retirement system. The intent would be to assure retirement credit for social security earnings and social security contributions in situations where the person has some social security credits but not enough to be insured for benefits. One of the problems that would result is if a Federal employee were assured of additional civil service credit whether he continued in his Federal employment or if he shifted to non-Federal employment, some of the Government's most competent and highly-trained employees might find this a further incentive to retire from Federal service while still at the peak of their productivity. Such persons might be able to get higher salaries and at the same time build up higher Federal staff-retirement benefits through employment outside of the Federal retirement system. 20/

Such a departure from the principle of relating civil service retirement system benefits to Federal employment might also raise questions of equity among many Federal employees. For example, some who have worked for many years at lower salaries than they could have earned elsewhere—an important consideration being that they counted Government contributions to their potential retirement benefits as part of their compensation—would find other Federal workers getting credit toward civil service retirement benefits based in part on work performed outside of the Federal civil service. The specific provisions of any such plan would have to be quite complex to avoid various types of anomalies. For example, an employee whose 29 years of work were all performed in the Federal service would not be eligible to retire under the civil service retirement system at age 55 while another

^{20/} When the President's Cabinet Committee on Federal Staff Retirement Systems reported in 1966 on, among other studies, its study of a proposal to provide civil service retirement system credits for non-Federal service (in this case, credit for service performed by State employees in programs supported wholly or in part by Federal funds), it said in part: "Precedents established by such action would inevitably lead to further broadening of creditable service categories, and the eventual complete degeneration of CSR as an effective instrument of Federal personnel management. In the process, substantial inequities among categories of employees would be generated." Source: Message From the President of the United States, 89th Congress, 2nd Session, House Document No. 402, March 7, 1966, page 42.

with fewer years of Federal service could presumably retire at age 55 if he had sufficient non-Federal work for which civil service retirement credit would be given. Also, a Federal employee with an annual salary from the Government of \$6,000 and social security credits in the same year of \$4,000 from non-Federal employment might get the same retirement credit as another employee with a Government salary of \$10,000.

Difficulties of these kinds would also arise, though to a lesser degree, if credits were transferred from social security to the civil service retirement system only in cases involving survivorship or disability benefits based on relatively short Federal service. However, it appears that the objectives of such a limited provision could be effectively achieved, and the difficulties avoided, through a combination of measures providing for transfer of Federal employment credits to social security when there is no eligibility for civil service benefits and a guaranteed minimum civil service benefit level where there is eligibility for civil service benefits.

Providing new benefits under the civil service retirement system to fill present gaps in protection

Representatives of several of the employee organizations have indicated some interest in the possibility of providing survivorship and disability benefits under the civil service retirement system for employees with less than 5 years' service, as a possible alternative to transferring credits to social security in such cases. We gave careful consideration to this possibility.

If there were little or no mobility of workers between Federal civil service employment and work covered by social security, such an approach would appear to be quite practicable and appropriate. However, in the face of the reality that every year hundreds of thousands of workers do move between Federal employment and other work, the approach appears to have serious disadvantages.

One disadvantage is that some of the gaps in protection would still be left unfilled. The many employees who, regardless of length of service, leave Federal service before retirement would continue to be left without survivorship or disability protection based on their Federal employment. Moreover, all who leave Federal service and obtain refunds of their contributions to the civil service retirement system (the great majority of those who leave) would get no retirement credit under any system for the years they worked in Federal employment.

It also appears that the cost to the civil service retirement system of this alternative approach would be higher than the cost of transferring credits to social security in the kinds of cases with which the alternative would deal. This would be true because under a transfer-of-credits plan the social security trust funds would bear part (in many instances, a large part) of the cost of the survivorship and disability benefits because many of the short-service Federal workers have had some previous work covered by social security. Under the alternative, in such cases the civil service retirement system and the employees involved would, presumably, have to bear the entire cost of the benefits.

b. Guaranteed minimum civil service benefits related to social security benefit levels

The guaranteed minimum annuity provision would be a liberalization of the civil service retirement provisions, and would not involve coordination with social security; the social security benefit levels are simply used as an appropriate standard of levels below which the amounts received by a beneficiary of the civil service retirement system should not fall.

Employees and their survivors who become entitled to benefits under the civil service retirement system would be guaranteed that the monthly benefit amounts under that system (or, if also eligible for social security benefits, from social security and the civil service retirement system combined) would be at least equal to the monthly amounts that would be payable if the Federal service had been covered under social security. 21/

The guarantee provision would operate as illustrated in the following example: Assume that the surviving family of a Federal employee is eligible for a monthly benefit of \$200 under present provisions of the civil service retirement system and that, if the deceased worker's Federal employment had been covered under social security instead of under the civil service retirement system, the surviving family would have been eligible for social security benefits of \$400 a month. If the surviving family is not eligible for social security benefits based on any other employment which the deceased worker may have had, the civil service benefit amount would be \$400 a month under the guarantee rather than \$200 under present provisions. On the other hand, if in the same case the surviving family is eligible for an actual social security benefit of \$100 a month (based on work other than Federal employment), the \$100 social security benefit would be offset against the guaranteed amount (\$400), and so the civil service retirement system would pay \$300 a month. If, however, the actual social security benefit would reduce the civil service retirement benefit below the amount payable by the civil service retirement system under present law, the guarantee would not be applicable; the surviving family would receive the actual social security benefit amount and the civil service retirement benefit payable under present law.

Effect of the guarantee on protection

The guaranteed minimum annuity provision would have greatest impact on survivorship benefits, overcoming the shortcomings which in some situations occur in survivorship benefits paid under the civil service retirement system. Family survivorship protection would be improved even for many employees with 20 or more years of Federal service.

^{21/} If the guaranteed amounts under the minimum annuity provision were put into the civil service retirement law as a table, future increases in social security amounts would not automatically increase the amounts payable under the minimum guarantee; additional civil service legislation would be required to take future social security increases into account, and the effect upon the financing of the civil service retirement system could be given full consideration by the Congress.

The improvement in disability protection under this provision would mainly involve situations where an employee qualifies for a civil service disability annuity based on a relatively low high-5-year average pay. (In many situations, however, a civil service employee--particularly one with a family--who meets the social security definition of disability would find it quite advantageous to have his civil service credits transferred to social security and thus establish eligibility for social security disability benefits.) 22/

The guaranteed minimum annuity provision would rarely increase retirement benefit amounts payable under the civil service retirement system, since they are generally higher than what would be payable if the Federal service were covered under social security. Retirement benefits under social security can be higher than under the civil service retirement system in cases where the retiree had relatively short Federal service, but in such cases he will very likely qualify for substantial social security benefits based on other work, with the result that the guarantee would not increase the amount of the civil service retirement benefit.

The improved survivorship protection which would be provided in some situations under the guarantee is illustrated in the following table involving a Federal worker who has a wife and two children at the time he dies.

Table 6. Illustrative survivorship benefits payable under a guaranteed minimum annuity provision

Years of Federal Service	High-5-Year Average Salary Monthly	Average Earnings for Social Security Computation 1/		nly CSR r Benefit Minimum Guarantee
5	\$500	\$500	\$135	\$375
10	600	600	168	415
15	750	650	222	434
20	850	650	283	434

^{1/\$7,800 (}equivalent to \$650 a month) is the maximum creditable in a year for social security purposes under present law. It is assumed that the worker entered Federal employment at age 22.

^{22/} The U.S. Civil Service Commission has taken the position with respect to previous legislative proposals to provide a guaranteed minimum annuity that the guaranteed amount should not in effect create new classes of beneficiaries under the civil service retirement system. In practice, this would exclude from the guaranteed amount in a disability or retirement case any benefit amounts for family dependents since the civil service retirement system does not pay benefits to dependents of retirees. In the interest of administrative simplicity, the Civil Service Commission would also compute the guaranteed amount on the basis of high-5-average salary rather than the generally lower average monthly wage computed over a longer period under social security.

Cost of providing the guarantee

Since the guarantee provision would simply be a liberalization of benefits provided by the civil service retirement system, the cost would be entirely an added cost to that system. While the cost of the guarantee would of course be affected by the specific provisions adopted, it is estimated that the total "normal" cost would be less than one-half of one percent of civil service payroll.

c. Medicare for Federal employees

It appears that a sound approach to providing an appropriate relationship between the FEHB and Medicare programs should be one aimed at: (a) eliminating duplications in coverage under the two programs; (b) assuring for all Federal civil service employees and retirees at age 65 a continuation of the high-quality health insurance protection they have under the FEHB program; and (c) providing such protection at a low cost appropriate to their reduced income in retirement.

A plan for relating the FEHB program to Medicare

The key provisions in this approach would be the following:

- (1) Federal workers whose Government employment is not covered under the general social security provisions would have their employment covered under the hospital insurance provisions of social security for purposes of becoming insured for Part A (hospital insurance) Medicare protection when they reach age 65.
- (2) Civil service retirees who reach age 65 before their employment has been covered under the hospital insurance provisions long enough for them to become insured would be deemed insured under Part A of Medicare. The cost of deeming these retirees to be insured would be borne by the Government, as employer.
- (3) All civil service retirees would, as now, have the option to enroll under Part B (supplementary medical insurance) of Medicare.
- (4) Health insurance designed to complement Medicare would be made available under the FEHB program to Federal retirees and employees who become entitled to Part A protection. This complementary insurance would, together with Part A and Part B protection under Medicare, provide health insurance protection at approximately the level provided under the Government-wide high-option FEHB plans. The cost of this complementary health insurance might be met wholly by the Federal Government or part of the cost might be left to be borne by employees. If the whole cost were met by the Federal Government, there would be assurance that all retirees had this protection. Also, if the cost were borne wholly or even largely by the Federal Government the result would be that retirees would have a considerably larger percentage of the cost of their Federal employee health

benefits borne by the Federal Government than is now the case. At present, retirees who have coverage under high-option plans pay about two-thirds of the cost of their health insurance, while the Federal Government pays only about one-third of the cost.

Workers in Federal employment that is excluded from social security coverage would be covered under the Part A provisions of Medicare. The Federal employees and the employing agencies would then make contributions (now 0.6 percent of pay up to \$7,800) toward Part A protection, like other employees (and their employers) whose jobs are covered under social security. When the workers (and their spouses) reach age 65, they would be insured for Part A benefits if they have credits for enough quarters of coverage to meet the social security insured-status requirement for retirement. For the purpose of determining insured status, the new Part A credits would be counted in the same way as full social security credits.

A provision for deeming insured under Part A of Medicare those who reach age 65 before having become insured through covered work seems warranted in the interest of making the plan fully effective at the outset. Those for whom Part A protection would be provided in this way would include retirees and employees, their spouses at age 65, and the surviving spouses at age 65 of deceased annuitants and employees who died in service. The group would also include employees who are in Federal employment subject to coverage under Part A of Medicare and who do not work long enough before retirement to meet the insured-status requirement.

This transitional provision would be somewhat comparable to a special transitional provision included in the Medicare legislation in 1965. Under that provision, coverage under Part A of Medicare was provided for people who reached age 65 before 1968 and were not eligible on the basis of covered work. The cost of benefits provided under the 1965 transitional provision is paid from general Treasury revenues. Although some Federal annuitants were "blanketed-in" for protection under the 1965 provision, about 175,000 retiring after June 1960 were excluded. Some employee representatives feel that the exclusion of many Federal retirees from the transitional insured status provisions of Medicare has been unfair and has caused hardships for the employees, including employees who retired while young on account of disability before 1960 and were not yet 65 years old in 1968.

Coverage under present Federal employee health benefit plans would be terminated for those who become entitled to Part A protection but the Federal Government, as employer, would make available health benefits coverage designed to complement Part A and Part B of Medicare in a way which would maintain the health insurance protection of employees and annuitants at the general high-option level of the present FEHB plans. The new complementary insurance should make provisions for continued protection of spouses not old enough to be eligible for Medicare where the retiree becomes eligible and for the relatively few dependent children of retirees eligible for Medicare. Some representatives of employee organizations were emphatic that any plan of this kind should assure continuing protection of younger family members.

Advantages of the proposed plan

Adoption of the approach outlined here would assure practically all Federal employees of relatively low-cost health insurance protection after age 65. With Part A (of Medicare) protection assured, and a new complementary FEHB plan available, there would be greater advantage than is now the case for Federal retirees in subscribing for Part B protection. This is because there would no longer be present the barrier to Part B enrollment that now results from the overlapping of Part B benefits and those under the FEHB plans. By reason of such overlapping Federal retirees now enrolled in Part B get less protection for their premium dollars than do other enrollees.

This approach has the advantage inherent in the prepayment principle—that is, the worker would contribute, with his employer, while he is working, towards the cost of his health insurance after age 65. Also, it would assure that people whose working lifetimes are divided between Federal and other employment would contribute towards Part A protection throughout their working lifetimes, as in the case of practically all other workers.

Though this approach would of course have no effect on the civil service retirement system—the FEHB program being entirely separate from that system—the present situation is in many respects analogous to the situation that existed between the civil service retirement system and social security some years ago before the two systems proceeded on a long course of independent development, which made coverage—coordination of the two systems increasingly difficult. Because the Medicare and FEHB programs are still relatively new, the time is opportune to establish an appropriate coordination between them; this will very likely become more difficult in the future as the two programs develop independently.

Cost implications

Estimates of the specific cost effects of this approach would require extensive analysis to develop projections of future costs of the FEHB program (taking into account increasing health care costs and the increasing proportion of aged persons covered), to determine the extent to which the amount of contributions that would be made to Part A of Medicare by employees and the Government would be offset by reductions in FEHB costs, and to evaluate such other interacting factors as the effect of greatly increased participation of Federal retirees in Part B of Medicare.

The approach would of course improve the health benefits protection of a minority of older Federal employees and annuitants who do not now subscribe to the high-option FEHB plans, and so would result in a moderate increase in over-all costs, although the main thrust of the plan is to redistribute the financing of the high-level protection now maintained by most of the older employees and annuitants, so as to reduce the cost to the individuals when they have lower incomes in retirement.

Because a major part of the present FEHB cost of providing health insurance protection for the high-cost elderly members would be met through their coverage under the Medicare program, it is clear that there would be a significant reduction in the rate of increase in the over-all cost of the FEHB program, and this would, in effect, produce savings in FEHB premium rates for Federal employees that would be an offset against the cost of their contributions toward Part A coverage of their employment. The contributions that the Government as employer makes to the present FEHB plans for the protection of elderly members could be used toward the financing of the new complementary FEHB plan. Under this approach, the Government, as employer, would be paying a substantially larger proportion of the health benefits protection of retirees who have reached age 65, than under the present arrangement.

3. The question of special limitations on social security benefits payable to persons also receiving substantial civil service retirement benefits.

Consideration of whether or not any special limitations should be placed on the heavily-weighted social security benefit amounts of certain Federal retirees who also receive substantial civil service benefits raises a number of difficult questions. These include:

Can an effective solution be devised which would avoid the creation of other anomalies and inequities such as the provision of lower benefit amounts than are provided in present law, or imposition of the special limitations on people already getting social security benefits or on those already insured but not getting benefits?

Can an equitable test be devised (e.g., length of Government service, level of Government pay) to determine whether a retired employee should be subject to special limitations on social security benefits?

How would equitable treatment be provided among the several categories of annuitants who are in a similar position with respect to social security benefits, such as annuitants of the Federal civil service, annuitants of State and local government retirement systems, and annuitants of the railroad retirement system?

The situation which occurs when Federal retirees receiving substantial civil service retirement benefits also receive heavily-weighted social security benefits cannot appropriately be changed by simply reducing social security benefit amounts of such retirees to remove the weighting. Such an approach would reduce benefits below what is provided in present law for people who retire after a given date while those who retire before the date continue to receive the heavily-weighted benefits even though they have similar work histories. Further, this inequity would become even more pronounced at the time of general benefit increases in the future because the same percentage increase applied to the weighted benefit and the unweighted benefit would widen the difference between them.

Elimination of this inequity by reducing the benefits of those already on the rolls below the present-law level also seems infeasible. Even if social security benefits were reduced below the present-law level for only people who retire in the future, it would still be unfair to people who became insured for social security benefits through work performed in the past to reduce the benefit amounts which they had every reason to believe would be payable under present law.

We gave some consideration to a possibility under which present minimum social security benefits would be maintained at present levels for persons eligible for public retirement-system annuities based on substantial salary, in the event that social security benefits are generally increased in the future. In such cases, the present minimum benefit of \$55 a month would continue to be payable, and close-to-minimum benefits would be increased only enough to blend them into the range of higher benefits. 23/

This approach would also involve some difficult problems. One of the most difficult is that of defining equitably the group getting "substantial" staff-retirement benefits and therefore subject to the special limitations on social security benefits. Such benefits could be considered to mean benefits based on, say, 35 or more years of public employment not covered under social security, and a final salary equivalent to or greater than the top step of grade 6 in the General Schedule of the Federal civil service retirement system—now \$8,221 a year. Such a provision would affect only those public annuitants who have worked relatively short periods of time under social security or have only marginal earnings under the program.

If people with 30 or more years of public employment were included, it would seem necessary to provide some sort of sliding scale of special benefit levels applicable to retirees with 30 to 34 years of public employment. This would further complicate the provision but would avoid a sharp drop in benefit amounts between those who have 35 years of Government service and those who have, say, 34 years of service. While persons with less than 30 years of Government employment could also be included, a larger proportion of the people affected would be people whose total retirement benefits represent only a very modest replacement of earnings. 24/

A possible alternative would be to make the described approach applicable only to people who become insured under social security in the future. As noted earlier, however, the cases in which minimum or near-minimum social security benefits are based on very little coverage are mainly among people who are already on the benefit rolls.

^{23/} An illustration following this approach is described in Appendix H.

Data in the current study of Federal annuitants referred to previously indicate that Federal annuitants who retired under the "optional 12-29 years of service" provisions of civil service retirement with high-5 averages equivalent to average Federal salaries today and workers' basic benefit amounts of \$55 to \$85 number only 4% of all Federal annuitants.

If, despite the new problems that would be created, the described approach or a similar one should be considered, it clearly would be discriminatory to limit it to Federal employees. It would, in equity, have to be made applicable to State and local government employees receiving staff-retirement system benefits based on public employment not covered under social security. Obviously, the pattern of employment which may result in a minimum or nearminimum social security benefit exists with respect to all public employment not covered by social security. It would appear that consideration would also have to be given to whether or not employment under the railroad retirement system should be included under the benefit limitation provisions. Others who receive minimum or near-minimum social security benefits are those who for any reason work for a comparatively short time in work covered under social security, such as employees of some nonprofit organizations.

A broad approach to the question of the heavily-weighted benefits based on relatively short social security coverage could be developed if, in the future, consideration is given to very substantially raising the minimum benefits, say, to \$100 or more. Provisions could then be considered that would assure that only persons with reasonably long periods of covered work at low pay would receive the higher minimum benefit. It seems reasonable to think that, if any solution is required with respect to the relatively small number of civil service annuitants who are also getting social security benefits and whose combined retirement benefits may be regarded as excessive, it should be in the context of a broader solution for all people who may in the future become entitled to very substantial minimum benefits under social security.

CONCLUSIONS AND RECOMMENDATIONS

- 1. Extending social security coverage to employment subject to the Federal civil service retirement system would be more likely than other approaches to assure that the combined benefits (and contributions) of people who move between work covered by social security and the civil service retirement system would be at a planned and systematic level. However, the liberalization and independent development of the civil service retirement and social security systems over a long period of time present formidable obstacles to the adoption of the coverage approach. To deal effectively with the existing gaps and shortcomings in protection, the extension of coverage would have to be on an essentially compulsory basis; to avoid excessive costs and combined benefit amounts that could be regarded as unduly large, a coverage plan would have to provide for substantial reductions in the benefits of the civil service retirement system to take into account that social security benefits would be payable. Even a workable coverage plan providing for reductions in civil service retirement benefits would be quite costly, in part because of increases which would be required in some benefit levels, not needed to fill gaps or deficiencies, in order to avoid deliberalization of benefits for some employees.
- 2. Some of the organizations of Federal employees favor social security coverage of employment subject to the civil service retirement system, but only on a basis of individual choice and with no reduction of benefits of the civil service retirement system. Proposals to provide individual voluntary coverage under social security have been considered from time to time by the Committee on Ways and Means and the Committee on Finance, by the Executive Branch of the Government, and by a number of social security advisory councils consisting of experts from all major parts of the economy. It was always concluded that social security coverage on an individual voluntary basis is undesirable. Voluntary coverage would not fill the gaps in protection because many of those most needing social security protection would not elect coverage, and the increased cost to the Government would largely go toward enhancing the benefits of those employees who are best able to afford the social security contributions, sometimes to levels exceeding earnings before retirement. Further, the adverse selection of coverage would increase the costs of the social security program at the expense of other workers who are covered on a compulsory basis.
- 3. In view of the obstacles to the establishment of an acceptable coverage plan, we considered alternative measures that might largely deal with the matters indicated in the Committees' request—the gaps and deficiencies in the cash benefit protection of workers who have Federal employment, the lack of a satisfactory relationship between Medicare and the Federal employees health benefits program, and the situation in which some annuitants of Government retirement systems also qualify for the heavily—weighted minimum or near—minimum social security benefits and thus derive an advantage not intended for higher—paid workers. We have reviewed previously advanced proposals intended to solve these problems and we have also explored other possibilities. On the basis of our study we recommend that the Congress consider the following related measures as an effective and less costly alternative to

direct social security coverage of employment subject to the civil service retirement system.

- (a) Transfer of credits to social security:

 Where there is no benefit eligibility under the civil service, foreign service, or Central Intelligence Agency retirement system when a worker dies, becomes disabled, or retires, credits would be transferred from the staff retirement system to social security. The social security trust funds would be reimbursed for the proportionate cost of benefits attributable to the transferred credits with part of this reimbursement financed through withholding by the civil service retirement system of amounts equivalent to social security employee contributions from refunds made to separating employees or their survivors.
- (b) Guaranteed minimum civil service benefits:
 Where there is benefit eligibility under the civil service, foreign service, or Central Intelligence Agency retirement system, the staff retirement system benefits (or if social security benefits based on other work are also payable, the staff retirement system and social security benefits together) would be guaranteed to be at least as high as if employment subject to the staff retirement system had been covered by social security.
- (c) Medicare coverage for Federal employment: Federal workers whose Government employment is not covered under the general social security provisions would have their employment covered under the hospital insurance provisions of social security for purposes of becoming insured for Part A (hospital insurance) Medicare protection when they reach age 65. Those present civil service retirees who are not insured under social security, and their spouses, would at age 65 be deemed insured under Part A of Medicare and could then advantageously enroll under Part B (supplementary medical insurance); the cost of the Part A protection would be borne by the Government, as employer. New health insurance designed to complement Medicare would be available under the FEHB program to Federal retirees and employees who become entitled to Part A protection. This complementary insurance would, together with Part A and Part B protection under Medicare, provide health insurance protection at approximately the level provided under the Governmentwide high-option FEHB plans.
- 4. The number of people who qualify for minimum or near-minimum social security benefits and also for Government retirement-system annuities based on substantial salary was found to be much smaller than might have been anticipated. The number of such cases will decline in the future; as time passes, longer periods of social security coverage will be required to become insured for benefits, and benefit amounts based on substantial periods of social security coverage will generally be above the levels at which the heaviest weighting occurs. We believe that any legislative change designed to eliminate such cases would give rise to inequities as between some of the

people who would get reduced benefits and some who would get unreduced benefits. 25/

We recommend against any legislative action to provide for reduction of social security benefits paid to Government employees. We suggest, however, that a broad approach, going beyond Government retirees, be considered if, at some future time, the Congress should contemplate very substantially raising the minimum benefits, say, to \$100 or more. Provisions could then be considered that would assure that only people with reasonably long periods of covered work at low pay would receive the increased minimum benefits.

* * * * * * * * *

The three measures we propose would assure that workers subject to the civil service, foreign service, or Central Intelligence Agency retirement system, though not directly covered under social security, would nevertheless have protection under social security or at least the equivalent of such protection under the staff-retirement system. Employees would have the assurance that if they leave Federal service and lose protection under their staff-retirement system their Federal employment will be credited under social security, giving them the same continuity of basic protection that is afforded workers who move from one job to another in private industry. Such employees would get credit for all, not just some, of their years of work. Career employees and their families would be afforded greatly improved survivorship protection before they have completed long periods of service, and some would have improved disability protection as well. An appropriate and workable relationship would be established between Medicare and the Federal employees health benefits program. All Federal employees would be assured that at age 65 they would have low-cost health insurance protection.

While we do not at this time have definitive cost estimates on the additional costs that would result from adoption of the above-described proposals, it is clear that the costs would be very substantially below the cost of a workable coverage-coordination plan.

We believe that these measures, taken together, would effectively remedy the shortcomings and inequities in the existing protection of workers who have Federal employment that were noted in the Committees' request. They would achieve this objective without incurring nonessential costs or making any changes in the Federal staff-retirement systems that would be inconsistent with their basic purposes or interfere with their continued independence.

^{25/} Among the many approaches we considered in the course of our study, the approach described in Appendix H seemed the least fraught with possibilities for creating new problems.

APPENDIXES

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APPENDIX A

Comparison of the principal benefit provisions of the civil service, foreign service, and Central Intelligence Agency retirement systems, and of social security

Central Social Security	Intelligence Agency	Same as CSR Contributions, on annual earnings base of \$7800, are—Employee & employer each for OASDI and Medicare hospital insurance (HI):	Percent 1 HI 7 60 . 60 . 60	5.00	Self-employed persons:	Calendar Year Percent Total 1968 Year OASDI HI Total 1968 1969-70 6.30 60 6.40 1971-72 6.90 60 7.50 1973-75 7.00 65 7.65 1976-79 7.00 7.00 7.00 1980-86 7.00 7.00 7.00
CO 100 E	Foreign Service	Same as CSR				
	Civil Service 1/	Employee and agency each contribute 6 $1/2\%$ of basic pay.			. —	
	Provisions	A. Financing Contributions				

Provisions	Civil Service	Foreign Service	Central	Social Security
and the first state of the stat			Intelligence Agency	Valle December
B. Age and service retirement	Full benefits at age 62 after 5 years, age 60 after 20 years2/or age 55 after 30 years: 11/2% of average salary of highest 5 consecutive years times years of service not exceeding 5, plus 13/4% of high-5 average salary times years of service exceeding 5 but not exceeding 10, plus 2% of high-5 average salary times years of service exceeding 10. Substitute 1% of high-5 salary, plus \$25 for any or all of above percentages if higher. Maximum: 80% of high-5 average salary.	Full benefits at age 50 after 20 years: 2/2% of high-5 year average salary for which full contributions have been made times years of service not exceeding 35. Maximum: 70% of high-5 average salary.	Full benefits at age 50 after 20 years of service provided 10 years service with Agency, at least 5 of which was in certain service designated by the Discretor of CIA as being subject to this retirement system. Computation same as in foreign service system.	Full benefits at age 50 after after 20 years of serv-taken before age 65) with fully gear average salary for ice provided 10 years insured status. A person is which full contributions at least 5 of which was or has at least 6 of c's and has in certain service dearing 35. Maximum: signated by the Director of CIA as being after 1950, or age 21, if later, subject to this retirement benefit is equal to the primary insurance amount (PIA) which is computed from a benefit table that is based approximately on the formula: 71.16% of the first \$110 of average monthly wage; 3/ plus 25.88% of the next \$150.00 Maximum: \$15.00

Social Security	At any age before 65, after a 6-month waiting period. The worker must be unable to engage in any substantial gainful activity; the impairment must be a medically determinable physical or mental condition that is expected to continue for at least 12 months or to result in death. Fully insured staus and (a) if disabled before age 24, at least 6 QC's out of the 12 quarters preceding disablement, or (b) if disabled between ages 24 and 31, QC's in at least half of the quarters after age 21, or (c) if disabled after age 31, 20 QC's in the 40-quarter period ending with disablement. Benefit is equal to the PIA.
Central Intelligence Agency	Same as CSR
Foreign Service	After 5 years: Disabled for position held, same as age and service retirement unless higher benefit allowable under guaranteed minimum formula which grants lesser of (1) 40% of high-5 average salary or (2) annuity computed under regular formula after adding assumed service from date of separation to mandatory retirement age for class held at retirement.
Civil Service	After 5 years: Disabled for position held, same as age and service retirement unless higher benefit allowable under guaranteed minimum formula which grants lesser of (1) 40% of high-5 average salary or (2) annuity computed under general formula after adding assumed service from date of separation to age 60.
Provisions	C. Disability provisions

Social Security	Wife. or dependent husband, age 62 or over (reduced if taken before age 65), or wife caring for a child entitled to benefits, and dependent, unmarried child, if child is under age 18 (or 22 if full-time student), or disabled with a disability which began before age 18, of a person entitled to retirement or disability benefits. Benefit is 50% of PIA except that benefit for wife or dependent husband may not exceed \$105, subject to maximum family benefit. Maximum family benefit is computed from a benefit table that is based approximately on formula: 80% of first \$436 of average monthly wage, 40% of next \$214 of average monthly wage, but not less than 1 1/2 times PIA.
Central Intelligence Agency	No provision
Foreign Service	No provision
Civil Service	No provision
Provisions	D. Dependents of annuitants

Social Security	Same as CSR, except under age 60 or over (benefits unmarried children reduced if taken before age 62), or between age 50 and 60 and time student, and discarding for a child under age 18 or disabled who is entitled to support from deceased at least 1/2 or disabled who is entitled to support from deceased age 62 or over, or between age 62 or over, or between age 62 or over, dependent unmarried child under age 18 (or 22 if full-time student), or disabled with a disability which began before age 18. Fully insured status required except that child's and mother's benefits may also be paid based on currently insured status. Sequires 6 quarters of coverage within the 13-quarter period ending with the quarter of death. Benefit for widower, or dependent parent is 82 1/2% of PIA, except that 2 dependent parents receive 75% each. Benefit for child and mother is 75% of PIA. All benefits subject to maximum family benefit provisions.
Central Intelligence Agency	Same as CSR, except unmarried children under age 21 if fulltime student, and disabled widower who received at least 1/2 support from deceased employee.
Foreign Service	Death before retirementa- After 5 years: Widow, disabled dependent widower, and unmarried children under age 18, or disabled with a disability which began before age 18:5 50% of disability annuity computed as described in (C) above plus for each child the smallest of (1) 40% of employee's high-5 average salary divided by number of children, (2) \$661.80, or (3) \$1985.40 divided by number of children. Children with no surviving parent: to each child the smallest of(1) 50% of employee's high-5 average salary divided by number of children, (2) \$794.16, or (3) \$2382.48 divided by number of children.
Civil Service	Death before retirementAfter 5 years: Widow, disabled dependent widower, and unmarried children under age 18 (or 22 if full-time student), or if older, incapable of self-support because of a disability incurred before age 18: 5/55% of regular worker's annuity plus for each child the smallest of (1) 40% of high-5 average salary divided by number of children. (2) \$687, or (3) \$2061 divided by number of children child the smallest of (1) 50% of employee's high-5 average salary divided by number of children, (2) \$824.40, or (3) \$2,473,20 divided by number of children.
Provisions	E. Survivor provisions 1. Annuities or benefits

Provisions	Civil Service	Foreign Service	Central Intelligence Agency	Social Security
	Death after retirement	Death after retirement-ChildrenSame as provisions for death before retirement.	Same as CSR	No distinction based on whether death occurred before or after retirement.
2. Optional annuities	Death after retirement Widow or widower: if named at retirement, with reduced annuity, entitled to 55% of amount of service annuity elected as survivor base. Person with insurable inter- est; Beneficiary named by unmarried employee or member in good health at retirement, entitled to 55% of reduced service annuity.	Death after retirement—Widow or widower; If named at retirement, with reduced annuity entitled to 50% of service annuity elected as survivor base. To other beneficiaries named by unmarried employee in good health at retirement 50% of employee's reduced service annuity.	Same as CSR	No provision

Social Security	Payable based on fully or currently insured status. Benefit is 3 times PIA with \$255 maximum.	
Central Intelligence Agency	Same as CSR	Same as CSR.
Foreign Service	Death before retirement-Death in service: Less than 5 years or more than 5 years and no survivor annuitant, refund plus interest to date of death. Death before age 60 after separation with entitlement to deferred annuity except after selectionout from FSO Class 4 or 5; refund with interest to date of separation. Termination of samuity rights: For survivors before exhaustion of lump-sum credit, refund plus interest to date of separation, less all regular annuities paid.	Death after retirement—Death before exhaustion of lump-sum credit and no survivor, or termination of annuity rights for survivors prior to exhaustion of lump-sum credit; Refund, plus interest to date of separation, less all regular annuities paid.
Civil Service	Death before retirement—Death in service: Less than 5 years-refund of accumulated contributions, plus interest (if at least 1 year) to death. If more than 5 years and no survivor anmitant, refund with interest only to 12/31/56. Death after separation: Less than 5 years, refund with interest (if at least 1 yr) to separation. Over 5 years, refund with interest tion. Over 5 years, refund with interests to 12/31/56. Termination of amuity rights: For survivors before exhaustion of lump-sum credit, refund plus interest to 12/31/56, less all regular amuities paid.	Death after retirement-Death before exhaustion of lump-sum credit and no survivor or termination of annuity rights for survivors prior to exhaustion of lumpsum credit: Refund, plus interest to 12/31/56, less all regular annuities paid.
Provisions	3. Lump Sum	

Social Security	None	None.
Central Intelligence Agency	Same as CSR. 6/ Involuntary separa- tion-same as CSR, except computation of benefits is same as in foreign service system.	Same as CSR.
Foreign Service	Less than 5 years: Refund with interest to date of separation. After 5: Deferred annuity at age 60, or refund with interest to date of separation provided application for refund filed prior to attaining eligibility for an annuity. If separation is by selection-out from FSO Classes 4, 5, 6, or 7: 1/12 of year's salary at current salary rate for each year of creditable service with maximum of one year's salary plus deferred annuity at age 60 or refund of contributions plus interest as described above.	Effective April 1 after any year in which Consumer Price Index has been up at least 3%, annuity increased by rise in CPI, for annuity that commenced before January 2 of the year in which the CPI increase occurred.
Civil Service	One year or less: Refund without interest. More than 1 year, but less than 5 years: Refund with interest to separation. After 5 years: (a) Deferred annuity at age 62, or (b) refund, with interest to 12/31/56, provided application filed more than 31 days before commencing date of any annuity for which he may be eligible. If separation is involuntary, after 25 years, or after 20 years at age 50, immediate annuity reduced by 1/6 of 1% for each month the employee is under age 55.	When Consumer Price Index is up at least 3% for 3 consecutive months, annuity is increased by percentage of rise in CPL, effective the first day of the third calendar month following the third month of the increase, for annuity that commenced before the effective date.
Provisions	F. Separation provisions	G. Cost-of-Living annuity increase provision

Footnotes:

after 5 years, or age 60 after 10 years; annuities of certain congressional employees are also computed under Provisions also generally apply to Members of Congress except Members contribute 7 1/2% of basic pay and are eligible for full benefits computed at 2 1/2% of high-5-average salary times years of service at age 62a special benefit formula.

2Employee mandatorily separated under civil service system after attaining age 70 with 15 years' service and under foreign service system at age 60 (except career ministers and ambassadors) 3/Average monthly wage is based on earnings in a specified number of years. Generally, the number of years is reached age 65 (age 62 for women), became disabled, or died; the years used in the average are those after 5 less than the number elapsing after 1950 (or after age 21, if later) and up to the year in which the worker 1950 in which earnings were highest. Under special transitional provisions monthly benefits are payable at age 72 or over to certain workers, wives, and widows on the basis of fewer quarters of coverage; the amount is \$40 for workers and widows and \$20 for

specified amount not affected by salary increases. Child annuity amounts under CSR are to be raised at least 5/Although cost-of-living increases of annuities generally apply only with respect to annuitants already on the rolls, cost-of-living adjustments permanently modify annuity rates for a child, since a child's benefit is a 3.7% effective March 1969, and under foreign service effective April 1969.

⁶ff separation is involuntary, retirement at any age with 25 years of service or at age 50 with 20 years (provided 10 years of service with Agency, at least 5 years of which was in certain service designated by the Director of the CIA as being subject to the CIA retirement system).

APPENDIX B

Examples of monthly benefit payments under the civil service retirement system

(a) Age-service retirement benefits payable to a retired worker and his widow

			High-	High-5-Average Salary	Salary		
	\$5,000	\$7,000	\$8,000	\$9,000	\$10,000	\$12,000	\$14,000
Retirement after 20 years of service	\$151	\$211	\$242	\$272	\$302	\$363	\$423
is provided for wife	147	206	236	265	294	349	403
-maximum survivor benefit for widow	83	116	133	150	166	200	233
Retirement after 30 years of service	234	328	375	422	469	563	656
is provided for wife	229	318	360	402	444	529	613
-maximum survivor benefit for widow	129	180	206	232	258	310	361
Retirement after 42 years of service (maximum benefit)	333	467	533	009	667	800	933
is provided for wife	323	443	503	563	623	743	863
-maximum survivor benefit for widow	183	257	293	330	367	440	513

age-service retirement benefit amounts if the disabled worker had at least 21 years and 11 months of covered Federal service.) (b) Minimum monthly benefits payable to a disabled worker $^{1}/(\mathrm{Disability}$ benefit amounts are equivalent to

			High-	High-5-Average Salary	Salary		
	\$5,000	\$7,000	\$8,000	\$9,000	\$10,000	\$12,000	\$14,000
40% minimum guarantee	\$167	\$233	\$267	\$300	\$333	\$400	\$467
Guaranteed benefit based on years of service plus years to age 60 at time of disablement 10 years total	99	95	108	122	135	163	190
15 years total	109	153	175	197	219	263	306
20 years total	151	211	242	272	302	363	423

"high-5" average salary, or (b) the amount obtained under the general formula after increasing the employee's actual service by the time remaining between the date of his separation and the date he attains age 60. (How-The civil service retirement system guarantees that the annuity of an employee who qualifies for disability retirement will be no less than the smaller of the two following amounts: (a) 40 percent of the employee's ever, only the disabled employee's "earned" annuity may be used as a base for the survivor benefit.)

case of a worker who dies in service

			High-	High-5-Average	Salary		
	\$5,000	\$7,000	\$8,000	\$9,000	\$10,000	\$12,000	\$14,000
Widow of worker who had 5 years' service -widow and 1 child -widow and 2 children	\$ 17 74 131	\$ 24 81 138	\$ 28 85 142	\$ 31 88 145	\$ 34 91 148	\$ 41 98 155	\$ 48 105 162
Widow of worker who had 10 years' service -widow and 1 child -widow and 2 children	37 94 151	52 109 166	60 117 174	67 124 181	74 131 188	89 146 203	104 161 218
Widow of worker who had 20 years' service -widow and 1 child -widow and 2 children	83 140 197	116 173 230	133 190 247	150 207 264	166 223 280	199 256 313	233 290 347
Widow of worker who had 30 years' service -widow and 1 child -widow and 2 children	129 186 243	180 237 294	206 263 320	232 289 346	258 315 372	309 366 423	361 418 475
Child with no living parent	69	69	69	69	69	69	69

APPENDIX D

(a) Employee and Government premium rates of the Government-wide Federal employees health benefits plans

SERVICE BENEFIT PLAN

SERVICE DE	NETI FLAN				
		19	68	196	9
Type of Enrollment		Monthly Premium	Percent	Monthly Premium	Percent
Self only High Option	Employee pays Government pays Total cost	$ \begin{array}{r} 8.43 \\ 3.64 \\ \hline 12.07 \end{array} $	$\begin{array}{r} 69.8 \\ \underline{30.2} \\ 100.0 \end{array}$	$ \begin{array}{r} \$10.79 \\ \hline 3.64 \\ \hline 14.43 \end{array} $	$\begin{array}{r} 74.8 \\ \underline{25.2} \\ 100.0 \end{array}$
Self and Family High Option	Employee pays Government pays Total cost	$ \begin{array}{r} 20.58 \\ \underline{8.88} \\ 29.46 \end{array} $	$\frac{69.9}{30.1}$	$\frac{26.35}{8.88}$ $\frac{35.23}{3}$	$\begin{array}{r} 74.8 \\ \underline{25.2} \\ 100.0 \end{array}$
Self only Low Option	Employee pays Government pays Total cost	$\frac{3.64}{7.28}$	50.0 $ 50.0 $ $ 100.0$	$ \begin{array}{r} 3.81 \\ 3.64 \\ 7.45 \end{array} $	$\frac{51.1}{48.9}$ $\overline{100.0}$
Self and Family Low Option	Employee pays Government pays Total cost	$ \begin{array}{r} 8.88 \\ \underline{8.88} \\ \hline 17.76 \end{array} $	50.0 50.0 100.0	$\begin{array}{c} 9.19 \\ \underline{8.88} \\ 18.07 \end{array}$	$\begin{array}{r} 50.9 \\ \underline{49.1} \\ 100.0 \end{array}$
INDEMNITY	BENEFIT PLAN				
Self Only High Option	Employee pays Government pays Total cost	$\begin{array}{r} 8.06 \\ \underline{3.64} \\ 11.70 \end{array}$	$\begin{array}{c} 68.9 \\ \underline{31.1} \\ 100.0 \end{array}$	$ \begin{array}{r} 11.57 \\ 3.64 \\ \hline 15.21 \end{array} $	$76.1 \\ 23.9 \\ 100.0$
Self and Family High Option	Employee pays Government pays Total cost	$ \begin{array}{r} 20.15 \\ \underline{8.88} \\ 29.03 \end{array} $	$\begin{array}{c} 69.4 \\ 30.6 \\ \hline 100.0 \end{array}$	$ \begin{array}{r} 28.84 \\ 8.88 \\ \overline{37.72} \end{array} $	76.5 23.5 $\overline{100.0}$
Self Only Low Option	Employee pays Government pays Total cost	$\begin{array}{r} 3.16 \\ \underline{3.16} \\ 6.32 \end{array}$	50.0 50.0 100.0	$\begin{array}{r} 4.57 \\ \underline{3.64} \\ 8.21 \end{array}$	$\begin{array}{r} 55.7 \\ \underline{44.3} \\ 100.0 \end{array}$
Self and Family Low Option	Employee pays Government pays Total cost	$\begin{array}{r} 7.58 \\ 7.58 \\ \hline 15.16 \end{array}$	50.0 50.0 100.0	10.82 8.88 19.70	$ \begin{array}{r} 54.9 \\ \underline{45.1} \\ 100.0 \end{array} $

(b) Benefit experience by patient category under high-option Federal employees health benefits plans authorized by the FEHB Act of 1959

Total Control		Average benefits of	Average benefits paid ner covered nerson	
ranent category	11/1/62 - 10/31/63	11/1/63 - 10/31/64	11/1/64 - 12/31/651/	1/1/66 - 12/31/66
A. Employees and dependents	\$ 57.45 (100.00%)	\$ 60.12 (100.00%)	\$ 65.29 (100.00%)	\$ 67.87 (100.00%)
Annuitants and dependents	131,14 (228,27%)	141.37 (235.15%)	$149.67 \ (229.23\%)$	144.49 (212.89%)
B. Employees	68,24 (100,00%)	73.57 (100.00%)	80.88 (100.00%)	83.71 (100.00%)
Annuitants	175.83 (257.66%)	188.71 (256.50%)	199.23 (246.32%)	189.46 (226.33%)
C. Employee dependents	52,15 (100,00%)	53.90 (100.00%)	58.24 (100.00%)	60.78 (100.00%)
Annuitant dependents	85.35 (163.66%)	92.21 (171.08%)	98.30 (168.78%)	97.67 (160.69%)

Average benefits paid for the 14-month period have been prorated for a 12-month period for purposes of comparison

		Average number co	Average number covered (in thousands)	
Patient Category	11/1/62 - 10/31/63	11/1/63 - 10/31/64	11/1/64 - 12/31/65 (14 months)	1/1/66 - 12/31/66
A. Employees and dependents	4,922.4 (96.46%)	5, 404.9 (95.51%)	5,548,9 (93.99%)	5, 598.3 (92.23%)
annuitants and dependents	180.4 (3.54%)	254.2 (4.49%)	355.0 (6.01%)	471.9 (7.77%)
	5, 102.8 (100.00%)	5,659.1 (100.00%)	5,903.9 (100.00%)	6,070.2 (100.00%)
B. Employees	1,620.9 (94.67%)	1,711.0 (92.96%)	1,725.9 (90.52%)	1,731.3 (87.79%)
Annuitants	91.3 (5.33%)	129.5 (7.04%)	180.7 (9.48%)	240.7 (12.21%)
	1,712.2 (100.00%)	1,840.5 (100.00%)	1,906.6 (100.00%)	1,972.0 (100.00%)
C. Employee dependents	3, 301.5 (97.37%)	3, 693.9 (96.73%)	3,823.0 (95.64%)	3,867.0 (94.36%)
Annuitant dependents	89.1 (2.63%)	124.7 (3.27%)	174.3 (4.36%)	231.2 (5.64%)
	3, 390.6 (100.00%)	3,818.6 (100.00%)	3,997.3 (100.00%)	4,098.2 (100.00%)

Source: Data from annual reports of the U.S. Civil Service Commission, Bureau of Retirement and Insurance.

APPENDIX E

Comparison of major benefits under the Government-wide service benefits plan (high option) of the Federal employees health benefits program and the health insurance for the aged program (as of 1/1/69)

Inpatient hospital benefits	Federal employees health benefits program—Government-wide service benefit plan (high option). Up to 365 days of care for each hospital confinement, including inpatient psychiatric hospital service. Hospital services includes virtually all those ordinarily furnished by a hospital to its inpatients. Services of special nurses are covered, subject to deductible and coinsurance provisions.	Health insurance for the aged program—title XVIII of the Social Security Act. Up to 90 days in each benefit period with patient paying a deductible of \$44 for the 1st 60 days plus a coinsurance amount of \$11 a day for each day in excess of 60 during a benefit period; plus lifetime reserve of additional 60 days with patient paying \$22 a day coinsurance. Hospital services include virtually all those ordinarily furnished by a hospital to its inpatients; payment will not be made for private—duty nursing. Inpatient psychiatric hospital service will be included, but a lifetime limitation of 190 days will be imposed. ½
Outpatient benefits	Full coverage for emergency hospital care rendered within 72 hours after an accident or medical emergency; X-ray and laboratory services; and radiation therapy. Other outpatient services are also covered under supplemental benefits, subject to deductible and coinsurance provisions.	Outpatient hospital services covered under medical insurance plan; outpatient physical therapy services and other outpatient health services also covered under medical insurance plan, subject to deductible and coinsurance provisions.

	Federal employees health benefits program—Government-wide service benefit plan (high option).	Health insurance for the aged program-title XVIII of the Social Security Act.
Posthospital extended care	Convalescent care excluded.	Up to 100 days in a benefit period for continued treatment in an extended care facility after transfer from a hospital where the patient stayed 3 or more days. The first 20 days of care are covered in full. In each of remaining 80 days patient pays \$5.50 coinsurance.1
Home health services	No specific provision. However, services furnished outside a hospital by a professional registered nurse, and, under special circumstances, by a licensed practical nurse, and physical therapy rendered by a qualified professional physical therapist are covered, subject to deductible and coinsurance provisions.	Hospital insurance plan: posthospital home health services for up to 100 visits in a year after discharge from a hospital or extended care facility, if services are furnished under an approved plan. Services of visiting nurses, physical therapists, and other health workers are covered.
		Medical insurance plan: up to 100 visits during a calendar year with no requirement of prior hospitalization, subject to deductible and coinsurance provisions.
Physicians' and surgeons' services	Under basic benefits, provides service or indemnity benefits for surgery, inhospital visits and certain other physicians' services according to a fee schedule. Covered physicians' services not paid for or covered under basic benefits payable under supplemental benefits, subject to deductible and coinsurance provisions.	Covered, subject to deductible and coinsurance provisions, except that full payment made to hospital inpatients for services of radiologists and pathologists.

	Federal employees health benefits program Government-wide service benefit plan (high option).	Health insurance for the aged programtitle XVIII of the Social Security Act.
Private duty nursing	Services of a professional registered nurse furnished in or outside a hospital are covered. Services of a licensed practical nurse furnished in a hospital, and, under special circumstances, outside a hospital are covered, subject to deductible and coinsurance provisions.	Excluded.
Prescription drugs	Covered in or outside a hospital. Prescription drugs outside a hospital are subject to deductible and coinsurance provisions.	Covered only when furnished in a hospital, extended care facility or by a physician in his office. When provided in the physician's office, coverage is limited to those drugs which cannot be self-administered and are incidental to the physician's service.
Payment for services outside the United States	Inpatient and outpatient hospital benefits are covered in full. Payments for physicians' services are made according to a fee schedule. Payments in excess of fee schedule covered under supplemental benefits, subject to deductible and coinsurance provisions.	Generally excluded with minor exception related to emergency occurring in the United States.

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	Federal employees health benefits program Government-wide service benefit plan (high option).	Health insurance for the aged programtitle XVIII of the Social Security Act.
Deductible and coinsurance payments	Individual pays \$100 deductible and 20 percent coinsurance in each benefit period for covered services and supplies not covered under the basic hospital and medical-surgical part of the program.	Hospital insurance plan: in each benefit period, individual pays \$44 for first 60 days of care in a hospital plus \$11 a day for the remaining 30 days of care; \$22 a day for each of the 60 hospital lifetime reserve days; and \$5.50 a day for 21st through 100th day of care in an extended care facility. 1// Medical insurance plan: patient pays \$50 annual deductible, plus 20 percent coinsurance.

For benefit periods beginning prior to 1969, the inpatient hospital deductible was \$40; the coinsurance amount for each inpatient hospital day was \$10; each hospital lifetime reserve day was \$20; and each extended care facility day was \$5.

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APPENDIX F

Selected material from earlier reports on social security and Federal employment

- (a) Report of the President's Cabinet Committee on Federal Staff Retirement Systems, March 7, 1966
 - A. 4. Relationship to Social Security
 - (a) Transfer of credits
 - (b) Social security minimum

Recommendation

Employees subject to the civil service retirement or the Foreign Service retirement and disability systems should be assured of survivor, disability, and retirement protection which is at least at the level provided under social security. This basic level of protection should be established through a twofold provision:

- (a) Workers who have employment subject to either of these Federal staff retirement systems but die or become disabled before they are eligible for protection under their staff retirement system or leave the Federal service and do not have protection under the staff retirement system when they die, become disabled, or reach retirement age, should have their credits under the staff retirement system transferred to social security; and
- (b) Employees and their survivors who become eligible for benefits under either of these staff retirement systems should be guaranteed that the benefit amounts they receive under the staff retirement system (or, if they are also eligible for social security benefits, under the staff retirement system and social security together) will be at least at the level that would be payable if their Federal service had been covered under social security

(c) Health insurance protection

Recommendation

Federal employees covered only by a staff retirement system should have health insurance protection after they reach age 65 on the same basis as other workers. This should be accomplished by covering under the health insurance provisions of social security all such present Federal employees who desire this coverage, and all persons who in the

future enter or reenter Federal employment that is covered only by a staff retirement system.

For employees and annuitants who become eligible for social security health insurance and who desire broader protection than they obtain under social security, the Federal Government should make available complementary health insurance designed to maintain protection at approximately the level afforded by the Government-wide high-option plans, with the cost being shared by the Government and the participants. Coverage under present plans authorized by the Federal Employees Health Benefits Act of 1959 should be terminated for future entrants who will, of course, qualify for social security health insurance protection.

(b) Joint Report of the United States Civil Service Commission and the Social Security Administration on Social Security and Federal Employment, March 13, 1965.

Summary and Conclusion

In summary, it appears to us that the principal advantages and disadvantages of the various approaches are as follows:

Approach No. 1 (employees covered under social security and the civil service retirement system, with no adjustment in the provisions of that system). Avoiding adjustment in the civil service retirement system provisions would be in accord with the views of employee organizations but the additional cost of this approach would be very high for employees and the Government. This approach would go beyond the objective of filling gaps in protection and would result in large increases in the benefits of many career employees; in some instances, retirement benefit amounts would exceed the employee's pay.

Approach No. 2 (same as approach No. 1 except that present and future employees could individually elect whether to come under social security). This approach has been favored by some employee organizations. The additional cost for the Government would not be quite as high as under Approach No. 1 since some employees would not elect social security coverage. However, the additional Government cost would go toward providing high benefits for those employees who elected coverage—mainly the better-paid employees who could readily afford to pay the social security employee contributions. Individual voluntary coverage under social security has always been considered undesirable because it involves adverse selection, which increases social security costs at the expense of those covered on a compulsory basis, and because some of those who have greatest need for social security protection would not elect coverage. Because some employees would not elect coverage, the objective of filling gaps in protection would not be fully achieved.

Approach No. 3 (employees covered under social security and the civil service retirement system, with adjustments in the retirement-system

provisions to take account of social security coverage). A plan carrying out this approach would fill the gaps in protection and could be designed to accomplish this objective at substantially less cost than approaches No. 1 and No. 2. This approach more than others has the potential to assure that the combined benefits (and the combined contributions) of people who shift between work covered by social security and the civil service retirement system would be at a planned and systematic level. This approach would, however, require some increase in cost beyond that necessary to fill the gaps in protection. Past proposals which involved adjustments of provisions of the civil service retirement system to take account of social security coverage have been strongly opposed by organizations of Federal employees.

Approach No. 4 (same as approach No. 3 except that present employees could elect to come under the new combined coverage or to continue under present provisions of the civil service retirement system and not come under social security). The considerations applicable to approach No. 3 are also generally applicable to this approach. The option provided under approach No. 4 would meet objections of some present employees based on individual circumstances, but this approach has also been strongly opposed by organizations of Federal employees because of the changes which would be made in the provisions of the civil service retirement system for the long run.

Approach No. 5 (a transfer-of-credit plan broad enough to provide social security protection for workers with Federal employment who do not qualify for protection under the civil service retirement system). A transfer-of-credit approach would not be as effective as coverage-coordination plans in assuring a planned and systematic level of contributions and benefits for workers who shift between Federal employment and other work. However, approach No. 5 would achieve the objective of filling major gaps in the protection of workers with Federal employment without involving costs, such as would be involved in the coverage plans, for providing nonessential benefit increases. Since this approach would not change the provisions of the civil service retirement system relative to career employees who stay in the Federal service, it would avoid objections which have been raised by employee organizations against plans which would make such changes.

Approach No. 6 (transfer of credits to social security in cases where employees die, become disabled, or separate before completing 5 years of Federal service). This approach would leave major gaps in protection unfilled, and would be even less effective than approach No. 5 in assuring a planned and systematic level of contributions and benefits for workers who shift between Federal employment and other work. It would, however, involve less additional cost than other approaches.

* * *

On the basis of our exploration of the advantages and disadvantages of these six approaches, a transfer-of-credit plan which follows approach No. 5 appears to offer "a workable and sound solution" to the problem of filling gaps in the protection of workers who have Federal employment. It does not, on the other hand, have certain advantages that some coverage-coordination plans have. This approach would require no changes in the provisions of the civil service retirement system, other than provisions for financing the plan, and would avoid difficulties which so far have prevented legislative action in this area. Thus, by providing benefit protection under social security in all situations where, under present law, no benefits would be payable under the civil service retirement system, the plan would close major gaps in the protection of workers who have Federal employment and would, moreover, be a relatively inexpensive approach.

Under this transfer-of-credit plan, credit for the Federal employment of workers who die, become disabled, or leave work covered under the civil service retirement system with less than 5 years of work under that system would be transferred to social security. (In this type of situation, the separated employees have no disability or survivorship protection under the civil service system.) Also, the credits of workers who leave Federal employment with more than 5 years of work covered under the civil service retirement system, and who lose their benefit protection under that system, would be transferred to social security. Appropriate financial adjustments between the two systems would be made to take account of the transfers of credit.

The Advisory Council on Social Security recently completed its study of the social security program and reported its findings and recommendations. In respect to social security protection for Federal employees, the Council recommended a transfer-of-credit plan that is similar to the one described above.

We recognize that this approach has shortcomings. For example, approach No. 5 would provide social security survivor and disability protection for workers with less than 5 years of Federal service which would be better than the survivor and disability protection afforded many of the workers with more than 5 years of service under the civil service retirement system. To correct this situation would require changes in the survivor and disability protection now provided by the civil service retirement system, perhaps by adding to a transfer-of-credit plan a provision guaranteeing benefit amounts that would be no less than those that would be paid under social security. Also, a transfer-of-credit plan would have no effect in situations where workers qualify for benefits under both social security and the civil service retirement system in total amounts which may be considered high in relation to the worker's lifetime earnings and contributions.

(c) Report of the Advisory Council on Social Security, January 1, 1965

Social security credit should be provided for the Federal employment of workers whose Federal service was covered under the civil service retirement system but who are not protected under that system at the time they retire, become disabled, or die.

Unlike almost all private pension plans and a high proportion of State and local retirement systems, the Federal civil service retirement system is not supplementary to the social security program. Thus when a person leaves Federal employment, his years of previous Federal service do not count toward social security benefits. Moreover, protection under the civil service retirement system does not start until after 5 years of Federal employment. As a result, although the civil service retirement system provides good protection for people who stay in Federal employment, Federal workers who leave, or those who die or become disabled before having worked for the Government for 5 years, may have inadequate protection or none at all under either civil service retirement or social security.

A practicable and relatively inexpensive way of filling the most serious gaps that result from this situation is to provide for social security credit for the Federal employment of those workers who are not protected under the civil service system at the time they retire, become disabled, or die. As part of the financing arrangement, the civil service retirement system would withhold, from the returns of contributions that are made from the civil service retirement system to separating employees, amounts equal to the social security employee contributions which would have been payable if their Federal work had been covered under social security. These withholdings would be transferred to the social security fund and additional financial adjustments made between the two systems to take account of the transfers of credit.

The plan includes the following principal elements, all of which the Council considers essential to its effective operation:

- 1. Credit would be transferred to social security for the Federal service of individuals who die, become disabled, or separate from work covered under the civil service retirement system after less than 5 years of Federal service. (At present, the only provision made where a person with less than 5 years of service dies or terminates his employment is for a refund of employee contributions.)
- 2. Credit would be transferred to social security for the Federal service of people who separate after 5 or more years of Federal work and obtain refunds of their contributions to the civil service retirement system. (The civil service retirement system does not provide any protection for people who separate from the civil service and take refunds.)

3. Former civil service employees who have not taken refunds of their civil service contributions and who die or who become disabled before age 62 could have credit for their Federal service transferred to social security. (Former employees do not have disability or survivorship protection under the civil service retirement system after separation.)

This transfer-of-credit approach would forego certain advantages which would be achieved by a straight extension of social security coverage. For example, an extension of social security coverage would provide superior protection for workers who become disabled or die relatively early in their careers. However, the transfer-of-credit approach the Council is suggesting would be considerably less costly for the Federal Government than a straight extension of social security coverage. Equally important, whereas an extension of social security coverage would require substantial modification of the civil service retirement system to take account of social security benefits and contributions, no modifications would be required to carry out the Council's recommendation except for the financing of the transfer of credits.

APPENDIX G

Illustrative Monthly Benefits Payable Under a Transfer-of-Credit Plan

The following charts illustrate the effect of the transfer-of-credit plan in cases involving various combinations of work under social security and under CSR.

In all cases, it is assumed that the plan has been in operation over the entire work lifetime of the individual, and that he earns at least \$7800 each year (the maximum amount creditable under social security under present law). It is also assumed that individuals begin working at age 22, with the exception of case F in which a female worker begins employment at age 18.

In none of the cases would monthly benefits be payable under the CSR system; if such benefits were payable, the transfer-of-credit plan would not apply. In all cases the employee's contributions (including interest, if Federal service was less than 5 years) to the CSR system are refunded, either to the separated employee or the survivors of the deceased employee or former employee. Under the transfer-of-credit plan, the amount refunded would be reduced by an amount equal to the social security contributions the employee would have paid if his Federal employment had been covered under social security.

CASE A

Mr. A works for 1 year under SS, then works 4 years under CSR, when he becomes disabled or dies.

	System	Monthly dis	sability benefits	Monthly survivor
	paying benefits	Worker alone	Worker, wife and 1 child	benefits, widow and 1 child
Present Law	CSR SS	0	0	0
Transfer-of-credit plan	CSR SS	0 \$218	0 \$432	0 \$327

CASE B

Mr. B works 12 years under CSR, separates, then works 12 years under SS, when he becomes disabled or dies.

	System	Monthly di	sability benefits	Monthly survivor
	paying benefits	Worker alone	Worker, wife and 2 children	benefits, widow and 2 children
Present Law	CSR SS	0 \$156	0 \$330	0 \$330
Transfer-of-credit plan	CSR SS	$\begin{matrix} 0 \\ 218 \end{matrix}$	$0\\434$	0 43 4

CASE C

Mrs. C works 12 years under CSR, separates to become a housewife, and later becomes disabled.

		Monthly dis	ability benefits
	System paying benefits	Disabled 0 to 5 years after separation	Disabled more then 5 years after separation
Present Law	CSR SS	0	0
Transfer-of-credit plan	CSR SS	0 \$218	0

CASE D

Mr. D works 2 years under SS, then 10 years under CSR, separates, then works 1 year under SS when he becomes disabled or dies.

	System	Monthly di	sability benefits	Monthly survivor
	paying benefits	Worker alone	Worker, wife and 1 child	benefits, widow and 1 child
Present Law	CSR SS	0	0	0 0
Transfer-of-credit plan	CSR SS	0 \$21 8	$0 \\ \$432$	0 \$327

CASE E

 ${\rm Mr.}\ {\rm E}\ {\rm works}\ 24\ {\rm years}\ {\rm under}\ {\rm CSR},\ {\rm separates},\ {\rm then}\ {\rm works}\ 12\ {\rm years}\ {\rm under}\ {\rm SS},$ when he becomes disabled or dies.

	System paying benefits	Monthly di Worker alone	sability benefits Worker, wife and 1 child	Monthly survivor benefits, widow and 1 child
Present Law	CSR SS	0 \$105	0 \$173	0 \$158
Transfer-of-credit plan	CSR SS	0 218	$\begin{matrix} 0 \\ 432 \end{matrix}$	$\begin{matrix} 0 \\ 327 \end{matrix}$

CASE F

Mrs. F works 4 years under CSR, separates. After 6 years at home, works 2 years under SS, when she becomes disabled or dies.

	System	Monthly di	sability benefits	Monthly survivor
	paying	Worker	Worker and 2	benefits,
	benefits	alone	children	2 children
Present Law	CSR SS	0 0	0	0 \$242
Transfer-of-credit plan	CSR	0	0	0
	SS	\$128	\$434	327

APPENDIX H

Illustrative method for reducing social security benefit amounts of public employees who also receive substantial staff-retirement system benefits.

The reduction of social security benefits provided in this method would be applicable to governmental employees--Federal, State, and local--who receive substantial staff-retirement benefits in addition to heavily-weighted social security benefits. Because of basic differences between length-of-service, benefit-computation, and other provisions of the Federal civil service retirement system and of many of the State and local retirement systems, some differentials, designed to make the provisions universally effective for governmental employees, would have to be worked out. The key provision, however, would be to maintain, when social security benefits are generally increased in the future, the present minimum benefit of \$55 a month, and to provide close-to-minimum benefits increased only enough to blend them into the range of higher benefits, for civil service retirement annuitants if they are eligible for substantial staff-retirement system benefits. The special benefit levels could be maintained under successive general benefit increases until the Congress finds that an appropriate differential in the levels of benefits has been reached.

Social security benefits adjusted under this approach would gradually range upward from the present minimum benefit of \$55 rather than from a higher minimum enacted at the time of the next general social security benefit increase. The approach would affect only the lower, most heavily-weighted, benefit levels based on average monthly earnings of \$110 or less.

The following table indicates how the approach would affect social security retirement benefits paid to Federal civil service annuitants. Where benefits are also payable to a wife or dependent husband, the spouse's benefit would (as under present law) equal 50% of the worker's benefit. For illustrative purposes, the table columns headed "Generally Increased Benefits" and "Benefits for Certain Long-Term Civil Service Workers" are based on a 15% benefit increase and an increase in the minimum benefit to \$70 from the present \$55.

Average Monthly	Present	Generally Increased	В	enefits fo	r Certain Service W	-	m Civil	
Earnings	Law Benefits	Benefits		YEARS O	F GOVER	NMENT S	SERVICE	
Lumings	Denerits	Delicitis	30	31	32	33	34	35
\$ 74 or less	\$55.00	\$70.00	\$68.70	\$67.20	\$65.40	\$62.90	\$59.50	\$55.00
80	57.70	70.00	68.90	67.70	66.30	64.70	61:70	59.00
85	61.10	70.30	69.40	68.40	67.30	66.10	64.60	63.00
90	64.50	74.20	73.30	72.30	71.20	70.00	68.60	67.00
95	67.80	78.00	77.30	76.40	75.30	74.00	73.00	71.50
100	71.50	82.30	81.60	80.80	79.90	78.80	77.70	76.00
105	75.10	86.40	85.90	85.30	84.60	83.70	82.50	81.00
110	78.70	90.60	90.30	89.90	89.40	88.70	87.40	86.00
111	78.70	90.60	90.60	90.60	90.60	90.60	90.60	90.60

Under this method, adjustments would be made only in social security benefits based on average monthly earnings of \$110 or less because the most heavily-weighted benefits fall in this range. The \$55 minimum social security retirement benefit in present law equals at least 74% of a worker's average monthly earnings in covered work, and in some cases may be a much higher proportion. The present benefit based on average monthly earnings of \$110 (the main "bend point" in the social security benefit formula) is 71% of average monthly earnings. As the average monthly earnings increase above the \$110 bend point, the percentage declines more rapidly; at the highest level of average monthly earnings, the worker's benefit equals about one-third of his average monthly earnings covered by social security.

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Enclosed are three copies of a draft of a proposed report on social security and Federal employment which the House Committee on Ways and Means and the Senate Committee on Finance directed the Social Security Administration to make.

Since a report must be released before the end of next week, the enclosed draft, which we are sending to Mr. Richard Helms, can be regarded as close to completed form. Revisions to improve the presentation have been made in the draft previously sent to you, and a section has been added which represents our views as to what conclusions are to be drawn and what recommendations should be made to the Committees.

I would appreciate having any further comments you may wish to make on this version of the report.

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cc:

Mr. Richard Helms Mr. John M. Maury

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